

# Official Transcript of Proceedings

*Before the*

**UNITED STATES POSTAL RATE COMMISSION**

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of: **POSTAL RATE AND FEE CHANGES**

Docket No. **R97-1**

**VOLUME 10**

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PAGES: **4815 - 5226**

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	C O N T E N T S				
	WITNESS	DIRECT	CROSS	REDIRECT	REXCROSS
1	THOMAS W. HARAHUSH				
2	BY MS. REYNOLDS	4827			
3	ALTAF H. TAUFIQUE				
4	BY MR. RUBIN	4838			
5	BY MR. BERGIN		4937		
6	BY MS. RUSH		4953		
7	KIRK T. KANEER				
8	BY MR. ALVERNO	4965			
9	PETER D. BERNSTEIN				
10	BY MR. KOETTING	4973			
11	BY MS. BLAIR		5087		
12	BY MR. BERGIN		5091		
13	DONALD M. BARON				
14	BY MR. COOPER	5120/5222			
15					
16					
17					
18					
19	DOCUMENTS TRANSCRIBED INTO THE RECORD:				PAGE
20	Designation of Written Cross-Examination				
21	of Thomas W. Harahush				4830
22	Designation of Written Cross-Examination				
23	of Altaf H. Taufique				4842
24	Designation of Written Cross-Examination				
25	of Kirk T. Kaneer				4969

1	DOCUMENTS TRANSCRIBED INTO THE RECORD: [continued]	PAGE
2	Designation of Written Cross-Examination	
3	of Peter Bernstein	4977
4	Designation of Written Cross-Examination	
5	of Donald M. Baron	5124

6

7

8

9

## E X H I B I T S

10	EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
11	Direct Testimony and Exhibits		
12	of Thomas W. Harahush,		
13	Exhibit No. USPS-T-3	4828	4828
14	Designation of Written Cross-		
15	Examination of Thomas W.		
16	Harahush		4829
17	Direct Testimony and Exhibits		
18	of Altaf H. Taufique,		
19	Exhibit No. USPS-T-34	4840	4840
20	Designation of Written Cross-		
21	Examination of Altaf H.		
22	Taufique		4841
23	Direct Testimony and Exhibits		
24	of Kirk T. Kaneer, Exhibit		
25	No. USPS-T-35	4966	4966

E X H I B I T S [continued]			
	EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
1			
2			
3	Designation of Written Cross-		
4	Examination of Kirk T.		
5	Kaneer		4968
6	Direct Testimony and Exhibits		
7	of Peter Bernstein, Exhibit		
8	No. USPS-T-31	4974	4974
9	Designation of Written Cross-		
10	Examination of Peter		
11	Bernstein		4976
12	Direct Testimony and Exhibits		
13	of Donald M. Baron, Exhibit		
14	No. USPS-T-17	5122	5122
15	Designation of Written Cross-		
16	Examination of Donald M.		
17	Baron		5123
18	Library Reference H-113		5223
19			
20			
21			
22			
23			
24			
25			

## P R O C E E D I N G S

[9:30 a.m.]

CHAIRMAN GLEIMAN: Good morning.

We continue hearings today on Docket R97-1, the Postal Service request for changes in rates and fees.

Scheduled to appear today are Postal Service witnesses Taufique, Kaneer, Bernstein, Baron and Harahush.

Does any participant have a procedural matter that they wish to raise at this point in time?

[No response.]

CHAIRMAN GLEIMAN: If there aren't any procedural matters, there are several witnesses where we did not have a request for oral cross-examination. I know that one of the witnesses is here now.

Ms. Reynolds, would you like to call Mr. Harahush, I understand, so that we can dispense with his presence here today?

MS. REYNOLDS: Yes, thank you.

The Postal Service calls Thomas W. Harahush. Whereupon,

THOMAS W. HARAHUSH,  
a witness, was called for examination by counsel for the United States Postal Service and, having been first duly sworn, was examined and testified as follows:

## D I R E C T E X A M I N A T I O N

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1 BY MS. REYNOLDS:

2 Q Mr. Harahush, I am handing you two copies of a  
3 document entitled Direct Testimony of Thomas W. Harahush on  
4 Behalf of the United States Postal Service.

5 Are you familiar with these documents?

6 A Yes.

7 Q Was it prepared by you or under your direction?

8 A Yes.

9 Q And if you were to testify orally here today,  
10 would this be your testimony?

11 A Yes.

12 MS. REYNOLDS: Thank you.

13 At this time, I would like to move this testimony  
14 into evidence.

15 CHAIRMAN GLEIMAN: Is there any objection?

16 [No response.]

17 CHAIRMAN GLEIMAN: Hearing none, the testimony and  
18 exhibits of Witness Harahush are received into evidence and,  
19 as is our practice, they will not be transcribed into the  
20 record.

21 [Direct Testimony and Exhibits of  
22 Thomas W. Harahush, Exhibit No.  
23 USPS-T-3, was marked for  
24 identification and received into  
25 evidence.]

1           CHAIRMAN GLEIMAN: Mr. Harahush, have you had an  
2 opportunity to review the packet of designated written  
3 cross-examination that was provided earlier today?

4           THE WITNESS: Yes.

5           CHAIRMAN GLEIMAN: If those questions were asked  
6 of you today, would your answers be the same?

7           THE WITNESS: Yes.

8           CHAIRMAN GLEIMAN: That being the case, I have  
9 provided two copies to the court reporter of the designated  
10 written cross-examination and I direct that they be accepted  
11 into evidence and transcribed into the record at this point.

12                                           [Designation of Written  
13                                           Cross-Examination of Thomas W.  
14                                           Harahush was received into evidence  
15                                           and transcribed into the record.]

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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS THOMAS W. HARAUSH  
(USPS-T-3)

The parties listed below have designated answers to interrogatories directed to witness Harahush as written cross-examination.

Party

Answer To Interrogatories

Office of the Consumer Advocate

OCAUSPS: Interrogatories T3-1(a-c), (e-g), 2-5.

Respectfully submitted,

  
Cyril J. Pittack  
Acting Secretary

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
HARAHUSH TO INTERROGATORIES OF THE OFFICE  
OF THE CONSUMER ADVOCATE

4831

OCA/USPS-T3-1. Please refer to page 21 of library reference H-89. The "Data Recoding" section states that counts of third-class single piece increased substantially for PQ 4, and consequently that third-class single piece mail was recoded as third-class bulk rate regular for the city carrier system.

a. Could the recoding affect the proportion of single subclass stops for third-class single piece or for other subclasses? Please explain.

b. Please provide a count of the third-class single piece mail that was recoded to third-class bulk rate regular. Please provide this as both a weighted and unweighted count.

c. Please provide more detail on how the recoding was performed.

d. Please explain why it was necessary to perform this recoding of third-class single piece mail for the city carrier system.

e. Please explain why the volume for third-class single piece mail increased substantially on the city carrier routes after July 1, 1996.

f. Has the CODES data collection software been changed since July 1, 1996 to correct the problem of having too much third-class single piece volume on city carrier routes? If so, please explain what changes were necessary. If not, will random data recoding continue in the future?

g. How was it determined that the PQ 4 FY 1995 third-class city carrier volumes were more accurate than those from the PQ 4 FY 1996 volumes? For example, is it possible that the FY 1996 PQ 4 third-class single piece estimates were correct (before recoding) and that there were inaccuracies in the analogous FY 1995 PQ 4 estimates? Please explain.

RESPONSE

a. Yes. Recoding could affect the proportions of single subclass stops for third-class single piece and third-class bulk only. This could happen in two ways.

First, stops for which only third-class single piece mail were entered would have been single subclass stops before being recoded. Subsequent to recoding they could be either single subclass stops, with only third-class single piece or bulk

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
HARAHUSH TO INTERROGATORIES OF THE OFFICE  
OF THE CONSUMER ADVOCATE

4832

rate regular or they could be multi-subclass stops, with both third-class single piece and bulk rate regular. Second, stops which consisted of both third-class single piece and bulk rate regular prior to recoding would have been multi-subclass stops prior to recoding. Subsequent to recoding they may have become single subclass stops, with only third-class bulk rate regular, or they could have continued to be multi-subclass stops. No other combination of subclasses would have affected the proportions of single-subclass stops.

b. weighted - 855,756,470

unweighted - 14,245

c. Separately, for each shape, we calculated the growth rate in third-class single piece plus regular from FY 95 to FY 96. We applied this overall growth rate to the FY 95 PQ4 third-class single piece estimate to obtain a target estimate for third-class single piece for FY 96 PQ4.

Each piece of third-class single piece was then assigned to either third-class single piece or third-class bulk, depending upon whether a computer generated random number exceeded a fraction chosen such that, in probability, we would obtain a third-class single piece estimate approximately equal to the target.

d. Redirected to USPS for institutional response.

e. With the change in software on July 1, we made changes in the way third-class single piece was collected. For example, prior to July 1, 1996, third-class single piece was referred to as ounce rate, and was listed as the last choice

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
HARAHUSH TO INTERROGATORIES OF THE OFFICE  
OF THE CONSUMER ADVOCATE

4833

when third-class was selected. After July 1, third-class single piece was listed as single piece, and listed as the first choice after Standard A was chosen.

Discussions with field staff indicated that the nomenclature used in the original software released July 1 had some effect on the increase.

f. Yes. Standard A single piece is now referred to as "Single piece (Non bulk)" and Standard A Regular is now referred to as "Regular (Bulk)" in the CODES data collection software.

g. The PQ4 FY96 third-class single piece counts substantially exceeded third-class single piece counts in the four previous quarters.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
HARAHUSH TO INTERROGATORIES OF THE OFFICE  
OF THE CONSUMER ADVOCATE

4834

OCA/USPS-T3-2. Please refer to page 25 of library reference H-89. The "Data Recoding" section states that counts of third-class single piece increased substantially for PQ 4, and consequently that third-class single piece mail was recoded as third-class bulk rate regular for the rural carrier system.

a. Please provide a count of the third-class single piece mail that was recoded to third-class bulk rate regular. Please provide this as both a weighted and unweighted count.

b. Please provide more detail on how the recoding was performed.

c. Please explain why it was necessary to perform this recoding of third-class single piece mail for the rural carrier system.

d. Please explain why the volume for third-class single piece mail increased substantially on rural carrier routes after July 1, 1996.

e. Has the CODES data collection software been changed since July 1, 1996 to correct the problem of having too much third-class single piece volume on rural carrier routes? If so, please explain what changes were necessary. If not, will random data recoding continue in the future?

f. How was it determined that the PQ 4 FY 1995 third-class rural carrier volumes were more accurate than those from the PQ 4 FY 1996 volumes? For example, is it possible that the FY 1996 PQ 4 third-class single piece estimates were correct (before recoding) and that there were inaccuracies in the analogous FY 1995 PQ 4 estimates? Please explain.

RESPONSE:

a.     weighted - 412,184,392  
       unweighted - 8,849

b. See OCA/USPS-T3-1c.

c. See OCA/USPS-T3-1d.

d. See OCA/USPS-T3-1e.

e. See OCA/USPS-T3-1f.

f. See OCA/USPS-T3-1g.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
HARAHUSH TO INTERROGATORIES OF THE OFFICE  
OF THE CONSUMER ADVOCATE

4835

OCA/USPS-T3-3. To what extent has random recoding of recoded subclass been utilized in other Postal Service data collection systems over the last 10 years? Please list each occurrence and provide the justification for the use of random recoding.

RESPONSE:

A partial objection has been filed for this interrogatory.

To the knowledge of the Postal Service, the process of random recoding of rate case data has not been used by the Postal Service in the past.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
HARAHUSH TO INTERROGATORIES OF THE OFFICE  
OF THE CONSUMER ADVOCATE

4836

OCA/USPS-T3-4. Please refer to Table 4 of your testimony. This shows that 0.00080 of the single delivery residential (SDR) volume is special fourth class and 0.00036 of it is library rate.

a. Please confirm that the ratio of special fourth class rate to library rate volume is approximately 2.2 for city carrier SDR delivered mail.

b. Please refer to Table 2 of USPS-T-1. This table provides the FY 1996 volume estimate for special fourth class rate (189,793) and for library rate (30,133). Please confirm that the ratio of special fourth class to library rate volume is approximately 6.3 for national volume estimates.

c. Please confirm that the proportion of special fourth class rate volume relative to library rate volume is substantially smaller for SDR city carrier volume than for national volumes.

d. Please explain why the city carrier special fourth class rate and the library rate pieces could not have been randomly recoded to agree proportionally with the known national volumes.

RESPONSE:

a. Confirmed. Note, however, that both the numerator and denominator of the ratio of 2.2 are subject to sampling error and the resulting ratio is also subject to sampling error.

b. Confirmed. Note, however, that both the numerator and denominator of the ratio of 6.3 are subject to sampling error and the resulting ratio is also subject to sampling error.

c. Confirmed.

d. There is no reason to suspect this ratio should be the same for city carrier mail delivered to single delivery residential delivery stops as it is for the entire nation.

OCA/USPS-T3-5. Please refer to your responses to OCA/USPS-T3-1f and OCA/USPS-T3-2e. These responses state that a change was made to the way that Standard A single piece and Standard A Regular is now referred to in the CODES software.

a. Please provide the date that this change became effective for both the city and rural carrier systems.

b. Has at least one PQ of FY 1997 CCS data been collected since this change became effective? If so, does the FY 1997 CCS data demonstrate that the CODES software change corrected the problem? Do the new data indicate that random recoding will not be needed for FY 1997 CCS data? Please explain.

c. Has at least one PQ of FY 1997 RCS data been collected since this change became effective? If so, does the FY 1997 RCS data demonstrate that the CODES software change corrected the problem? Do the new data indicate that random recoding will not be needed for FY 1997 RCS data? Please explain.

RESPONSE:

a. June 3, 1997.

b. No.

c. No.

1 CHAIRMAN GLEIMAN: Does anyone else have any  
2 additional written cross-examination for this witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: There doesn't appear to be any.  
5 That being the case, it is not that we don't like  
6 having you in the room today and we appreciate your  
7 contributions to our record that you have already provided  
8 and, if there is nothing further, sir, you are dismissed.

9 THE WITNESS: Thank you.

10 [Witness excused.]

11 CHAIRMAN GLEIMAN: Mr. Rubin, do you want to call  
12 your next witness?

13 MR. RUBIN: The Postal Service calls Altaf  
14 Taufique as its next witness.  
15 Whereupon,

16 ALTAF H. TAUFIQUE,  
17 a witness, was called for examination by counsel for the  
18 United States Postal Service and, having been first duly  
19 sworn, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. RUBIN:

22 Q Mr. Taufique, I have handed you two copies of a  
23 document designated as USPS-T-34, entitled Direct Testimony  
24 of Altaf H. Taufique on Behalf of United States Postal  
25 Service. Was this testimony prepared by you or under your

1 supervision?

2 A Yes, it was.

3 Q And does this testimony include errata that were  
4 filed on August 18 and October 10?

5 A Yes, it does.

6 Q And do you have another correction to make at this  
7 time?

8 A Yes. I would like to correct -- the correction is  
9 on page --

10 CHAIRMAN GLEIMAN: Could you please pull the mic  
11 closer or speak more directly into the mic? Thank you, sir.

12 THE WITNESS: Okay.

13 The correction is on page 16, line 8. And this  
14 correction basically entails changing 0.01 to 0.1 cents.  
15 And that correction has been made in these two copies.

16 BY MR. RUBIN:

17 Q With that correction, if you were to testify  
18 orally here today, would this be your testimony?

19 A Yes, it would.

20 MR. RUBIN: Then I will hand the two copies of the  
21 direct testimony of Altaf H. Taufique on Behalf of United  
22 States Postal Service to the reporter and I ask that the  
23 testimony be entered into evidence in this proceeding.

24 CHAIRMAN GLEIMAN: Are there any objections?

25 [No response.]

1 CHAIRMAN GLEIMAN: Hearing none, Mr. Taufique's  
2 testimony and exhibits are received into evidence and I  
3 direct that they be accepted into evidence. As is our  
4 practice, they will not be transcribed into the record.

5 [Direct Testimony and Exhibits of  
6 Altaf H. Taufique, Exhibit No.  
7 USPS-T-34, was marked for  
8 identification and received into  
9 evidence.]

10 CHAIRMAN GLEIMAN: Mr. Taufique, have you had an  
11 opportunity to examine the packet of designated written  
12 cross-examination that was made available earlier today?

13 THE WITNESS: Yes, I have looked at it.

14 CHAIRMAN GLEIMAN: If these questions were asked  
15 of you today, would your answers be the same as those you  
16 previously provided in writing?

17 THE WITNESS: Yes, except for two corrections I  
18 would like to make now. And I have included the corrected  
19 pages in this packet also.

20 First is on the McGraw-Hill response MH/USPS-34-2.  
21 In the question, there was a typographical error that was  
22 made by us. In line 3, 17 percent should read 75 percent.

23 And the second change, I would like to find that.  
24 This is on the ABP response, ABP/USPS-T-4-11. And the  
25 change is on the second line. The start of the sentence

1 should be "any added volumes" instead of "the added  
2 volumes." And line 4, the word "has" has been changed to  
3 "have," h-a-v-e instead of h-a-s. And the last sentence  
4 that has been added is, "Please see my response to McGraw  
5 Hill MH/USPS-T-34-6.

6 Also one more change, as my counsel pointed out  
7 that I had made yesterday is on line 1 it should read the  
8 TYR volume reported in RRJ does not take into account any  
9 added volume, "any" is the word that was added in line 1.

10 CHAIRMAN GLEIMAN: Mr. Rubin, if you could please  
11 provide the reporter with two copies of the corrected  
12 designated written cross-examination of the witness, I will  
13 direct that they be accepted into evidence and transcribed  
14 into the record at this point.

15 [Designation of Written  
16 Cross-Examination of Altaf H.  
17 Taufique was received into evidence  
18 and transcribed into the record.]

19  
20  
21  
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23  
24  
25

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS ALTAF H. TAUFIQUE  
(USPS-T-34)

The parties listed below have designated answers to interrogatories directed to witness Taufique as written cross-examination.

<u>Party</u>	<u>Answer To Interrogatories</u>
American Business Press	<p>ABP\USPS: Interrogatories T34-1-7(a), 7(c) as revised by witness Taufique on September 12, 1997; 8-9, 10(b), 11-22.</p> <p>ABP\USPS: Interrogatory T4-11(b) redirected from witness Moden to witness Taufique.</p> <p>ABP\USPS: Interrogatories T34-23-24.</p> <p>MH\USPS: Interrogatories T34-3.</p>
<p>5</p> <p>McGraw-Hill Companies</p>	<p>MH\USPS: Interrogatories T34-1 and 3.</p> <p>ABP\USPS: Interrogatories T34-1-6, 7 (revised Sept. 12, 1997), 8-13, 16-24; ABP\USPS-T4-11 (redirected from witness Moden).</p> <p>TW\USPS: Interrogatories T34-1; TW\USPS-26-1(c), 2 (redirected from witness Seckar).</p> <p>POIR: POIR No. 1, response of witness Taufique to question no. 5.</p> <p>POIR: POIR No. 3, responses of witness Taufique to questions nos. 4-9.</p>
National Newspaper Association	<p>NNA\USPS: Interrogatories T34-2 to witness Taufique, answered October 1, 1997.</p> <p>NNA\USPS: Interrogatories T34-5-7 to witness Taufique, answered September 26, 1997.</p>

Office of the Consumer Advocate

ABP\USPS: Interrogatories T34-1-6, 7(a), 7(c),  
8-9, 10(a-b), 11-22 and redirected  
from witness Moden T4-11(b).  
MH\USPS: Interrogatories T34-1-6.  
NNA\USPS: Interrogatories T34-1-8.  
TW\USPS: Interrogatories redirected from  
witness Seckar T26-1(c) and 2(a-d).  
POIR: POIR No. 4, question 6.  
POIR: POIR No. 3, questions 4-9.  
POIR: POIR No. 1, questions 5-6.

Time Warner Inc.

TW\USPS: Interrogatory T34-1 (filed Sept. 29,  
1997).  
TW\USPS: Interrogatories T26-1(c) & 2 (a-  
d), redirected from witness Seckar  
(filed Sept. 9, 1997)  
ABP\USPS: Interrogatories T34-6, 9, 10(a-b),  
11-14 (filed Sept. 3, 1997), 23-24  
(filed Oct. 1, 1997).  
NNA\USPS: Interrogatory T34-2 (filed Oct. 1,  
1997).

Respectfully submitted,

  
Cyril J. Pittack  
Acting Secretary

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-1

[a] Confirm that the zone and regular rate periodical advertising pound rates that are listed on p. 2, Table II of your testimony for the delivery unit, sectional center faculty [sic], Zones 1 and 2, and Zone 3 are all lower than the corresponding rate elements recommended by the Postal Rate Commission in Docket R94-1.

[b] Confirm that the advertising pounds to which the DDU-Zone 3 rate elements referred to above are applied represent approximately 58% of total regular rate advertising volume in the test year (before rates), as derived from USPS-T-34 W/P RR-E, p. 1.

[c] Confirm that the pound rate for nonadvertising weight that you propose in Table II of 17.4 per pound is 9.4% higher than the corresponding nonadvertising pound rate of 15.9 per pound recommended by the Commission in Docket R94-1.

RESPONSE

[a] Confirmed

[b] Confirmed, assuming "volume" refers to pounds.

[c] Confirmed. A more recent comparison is that the nonadvertising pound rate of 17.4 cents is 8.1% higher than the 16.1 cents recommended by the commission in Docket No. MC95-1.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)**

ABP\USPS-T-34-2

Referring to your work paper USPS-T-34, RR-E please complete the chart below which would show the postage in cents per piece and percent increase per piece for a periodical weighing 7.4 ounces, with 58% editorial content, 42% advertising: nonmachinable under current USPS rules (and thus ineligible for automation), sorted to the five digit package level under past and proposed rates, and mailed to Zone 5.

	<b>RATES ADOPTED IN R94-1 (1/5/95 EFFECTIVE)</b>	<b>RATES ADOPTED IN MC95-1 (RATES EFFECTIVE 7/1/96)</b>	<b>RATES PROPOSED IN R97-1 (ASSUME EFFECTIVE 7/1/97)</b>
--	----------------------------------------------------------	-----------------------------------------------------------------	------------------------------------------------------------------

**POSTAGE (¢ PER  
PIECE)**

**% INCREASE            N/A**

**RESPONSE**

Using the example specified in the question, the following table was constructed:

	<b>RATES ADOPTED IN R94-1 (1/5/95 EFFECTIVE)</b>	<b>RATES ADOPTED IN MC95-1 (RATES EFFECTIVE 7/1/96)</b>	<b>RATES PROPOSED IN R97-1 (ASSUME EFFECTIVE 7/1/97)</b>
<b>POSTAGE (¢ PER PIECE)</b>	<b>24.9 cents</b>	<b>26.9 cents</b>	<b>28.6 cents</b>
<b>% INCREASE</b>	<b>N/A</b>	<b>7.8 percent</b>	<b>6.3 percent</b>

Note that the rates proposed in Docket No. R97-1 will not be effective until after 7/1/97. In any case, the effective date does not change the percentage increase in my response.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-3

Refer to your description of the "compound annual growth of 2.8% for regular rate periodicals 'between FY 1992 and FY 1996'." USPS-T-34, p.5, lines 1-9.

[a] What is the total cumulative revenue growth, compounded by year, for regular rate periodicals between FY 1992 and FY 1996?

[b] Assuming the Commission recommends the USPS-proposed rates for regular rate periodicals in R97-1, what would the total cumulative revenue growth of this subclass between FY 1992 and FY 1998 inclusive?

RESPONSE

[a] The 2.8% figure quoted in the question refers to revenue per piece that changed from \$0.202 to \$0.226, USPS-T-34, p.5, lines 8-9. The revenue as reported in my testimony grew by 17.7 percent or 4.2 percent (compounded by year) between FY 1992 (\$1339.6 million) and FY 1996 (\$1579.7 million), USPS-T-34, p.5, lines 7-8. These figures reflect changes in both volumes and revenue per piece.

[b] The TYAR total revenue based on proposed rates is estimated to be \$1,689 million. The cumulative growth in revenue for regular rate periodicals between FY 1992 and FY 1998 (proposed) is 26 percent . On an annual compound basis this growth is 3.9 percent per year.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP\USPS-T-34-4

Refer to p. 5, lines 10-15. Do you agree that some periodical copies that qualified for the Level B discount (five digit and three digit unique city) prior to the effective date of MC95-1 rates actually moved into a higher-cost per-piece rate category (i.e. "Basic") as a result of that decision? If you can explain why this happened, please provide that information.

RESPONSE

I agree, my understanding of this change is described in the following:

Prior to implementation of Docket No. MC95-1, pieces mailed at nonautomation rates could qualify for Level B rates if prepared in an optional city package of six or more pieces, and that package was placed in an optional city or unique 3-digit sack, or on a pallet. For automation rate flats, and for automation rate letters prepared according to one of the package-based preparation options, pieces in optional city packages of six or more pieces qualified for Level B rates, regardless of the level of sack (for flats) or level of tray (for letters) in which they were placed. Automation rate flats prepared in optional city packages of six or more pieces placed on any level of pallet also qualified for Level B rates. Automation rate letters prepared under the tray-based preparation option could qualify for Level B rates if placed in a full two-foot tray for an optional city destination.

With implementation of Docket No. MC 95-1, preparation of optional city packages, sacks, and pallets was eliminated. Mail that was previously prepared in optional city packages is currently required to be prepared in 3-digit packages.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-4, Page 2 of 2

Since the optional cities were all for non-unique 3-digit ZIP Codes, such 3-digit packages currently qualify only for Basic rates.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-5

[a] Elaborate on what you mean by "rate shock" as used in line 11, p. 7 of your testimony.

[b] Which particular presort tiers are you referring to when you describe why USPS chose cost savings passthroughs designed to "mitigate the 'rate shock' effect on the higher cost presort tiers"?

[c] Was the deliberate attempt to mitigate rate shock in part or in whole influenced by rate element adjustments approved by the Commission and the Governors in Docket MC95-1, even through the total revenues otherwise required from regular rate periodicals for FY 1995 (the test year of Docket MC95-1) did not change from that established in Docket R94-1?

RESPONSE

[a] In this docket for this particular subclass, a deliberate attempt was made to keep the increase in each cell below 10 percent.

[b] I am referring to piece rate cells that were affected by the 3/5 digit split and the shift of non-unique 3-digit from Basic to 3-digit. These include the Basic and 3-digit presort tiers.

[c] No.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-6

On pp. 9-10 of your testimony you refer to Library Reference H-190, the "Mail Characteristics Study".

[a] Where you personally involved in that study?

[b] Specify the time period for which the data for H-190 were collected.

[c] Do you assume that the presort composition of regular rate periodicals, the quantity of automation-qualified periodical flats, and the number of pieces in packages and/or containers will remain unchanged from the time period H-190 data were collected through the test year? If there will be changes, explain them in detail, giving reasons for each change. If you do not think that the regular rate composition as described in H-190 will change, explain why.

RESPONSE

[a] No, I was not involved in conducting the study.

[b] I have been told that the data for LR-H-190 were collected in two distinct time periods. The field (or non-CPP) data were collected between November 20<sup>th</sup> 1995 and December 20<sup>th</sup> 1995 (See USPS-LR-H-190, p. 33). The CPP (Centralized Payment Processing) data were collected from individual mailers during the first six months of 1996.

[c] Yes; While the presort composition may change somewhat, with more 5-digit and 3-digit skin sacks, LR-H-190 contains the best information available. Please see my response to USPS-T-34-7(a).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-7

[a] Please refer to p. 11, lines 10-16 of your testimony. Does USPS anticipate more 3 digit sacks in the test year than formerly were ADC or mixed ADC sacks as a result of the proposed application of 3 digit presort discounts to 3 digit packages? If your answer is no, please explain the response.

[b] Will SCF sacks be allowed for periodicals in the test year? If they are going to be allowed, what will be the effect on USPS mail processing costs if (1) automated 3 and 5 digit packages, now in ADC or mixed ADC sacks, are placed in SCF sacks and (2) if nonautomated 3 and 5 digit packages, now in ADC or mixed ADC sacks, are placed in SCF sacks?

[c] Would copies of periodicals within 3 or 5 digit packages placed in SCF sacks be eligible for 3 or 5 digit piece discounts if the carrier route sort of these pieces is performed at the SCF within which delivery of each piece occurs?

RESPONSE

[a] The Postal Service anticipates that some increase in 3-digit sacks is possible, although it cannot predict the amount of this increase since it is based on anticipating mailer behavior. Since Periodicals mailers may prepare 3-digit sacks containing as few as one package of mail, it is anticipated that more mailers may prepare such "skin sacks" in order to qualify more mail for the 3-digit rates. However, the Postal Service has no data showing how many mailers are currently preparing such "skin sacks" for service reasons, or how many mailers will prepare such sacks under the proposed structure. Furthermore, since preparation of "skin sacks" involves extra production costs for mailers, it is not known how many mailers that do not currently prepare such sacks would find the proposed new rate structure an economic incentive to do so.

REVISED SEPTEMBER 12, 1997

REVISED RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
TAUFIQUE TO INTERROGATORY ABP/USPS-T-34-7[c] OF AMERICAN  
BUSINESS PRESS (ABP)

ABP/USPS-T-34-7, Page 2 of 2

known how many mailers that do not currently prepare such sacks would find the proposed new rate structure an economic incentive to do so.

[b] Redirected to Witness Seckar

[c] For nonautomation rate sacked mailings, where the rates depend in part on the level of sack in which pieces are placed, it is my understanding that all nonletter-size mail in SCF sacks would be eligible for Basic rates.

However, it is my understanding that this would not be true for automation rate nonletter-size mailings prepared in sacks. For automation rate mailings, pieces in 5-digit packages of 6 or more pieces and pieces in unique 3-digit packages of 6 or more pieces placed in SCF sacks would be eligible for the 3/5 rate. Pieces in nonunique 3-digit packages and pieces in 5-digit and unique 3-digit packages of fewer than 6 pieces that are placed in SCF sacks would be eligible for the basic automation rate. If our proposed rate structure in Docket No.R97-1 is adopted, for automation rate mailings pieces in SCF sacks would be eligible for the 5-digit automation rate if in a 5-digit package of 6 or more pieces, and for the 3-digit automation rate if in any type of 3-digit package of 6 or more pieces.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-8

[a] Explain why pound rate revenue in periodical regular rate as a percent of total subclass revenue would increase from the 40% allocation established by the Commission in Dockets R90-1 and R94-1 to 41%.

[b] Since the approval of R94-1 rates by the Governors, did USPS perform any studies intended to re-examine, as repeatedly requested by the Postal Rate Commission in past rate cases since Docket R87-1, the appropriate proportion of revenues that ought to be obtained from pound rates as opposed to per-piece rates?

[c] If studies were performed, please produce all such studies.

[d] If studies were not performed, please explain why they were not performed.

RESPONSE

[a] The pound rate revenue in Periodicals regular rate as a percent of total subclass revenue is increased to 41% from 40% to avoid rate shock for some piece rate cells (See response to ABP/USPS-T-34-5).

[b] No.

[c] Not Applicable.

[d] They were not performed because the Postal Service was unable to complete all rate-related studies it might wish due to resource constraints. The issue of "appropriate proportion of revenues that ought to be obtained from pound rates as opposed to per-piece rates" is still on the list of issues to be studied. The Postal Service will try to accommodate this Commission request prior to the next omnibus filing.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-9

If USPS obtained, hypothetically, 70% of periodical regular revenues from pieces, and 30% from pounds, would it not be possible for editorial pounds to achieve "100 percent cost coverage" while either avoiding any increase in the editorial pound rate, or at least raising the editorial pound rate less than the 8.1% increase that USPS proposes? Was this option or some other increase in the proportion of revenue obtained from pieces rather than pounds considered, and if not, why not? If it was considered, why was it rejected?

RESPONSE

At the onset, I would state that the editorial content cost coverage is not a function of revenue split between pieces and pounds. Rather, it is directly affected by the editorial pound rate and the piece rate discount on editorial content.

Using your hypothetical the editorial content cost coverage might improve slightly (but remain below 100 percent) and the editorial content pound rate would also be lower than proposed, but the piece rates will increase significantly (some in the range of 15 to 20 percent). As stated earlier, this option was not considered because the issue of implicit cost coverage deals directly with the editorial pound rate and the editorial piece discount. Shifting the revenue requirement to piece rates does not address this issue.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-10

On p. 14, line 23, you refer to "average haul" as a factor in allocation of distance related transportation costs to periodical rate zones.

[a] How are the average hauls calculated?

[b] Was the Highway Contract Support System (HCSS) database consulted to calculate average haul per zone? If not why not?

[c] Confirm that HCSS contains a route length measure for each USPS-purchased highway contract, the annual cost of the contract, the annual miles traveled on the contract, the number of trucks on a contract and their cubic capacity and the highway cost account for the contract.

[d] Confirm that data comparable to that described in part C above also available for rail contracts.

RESPONSE

[a] The average haul miles used in the calculation of zoned pound rates have been in use by the Postal Service and the Commission since at least Docket No. R87-1. The only revision came about in Docket No. R90-1, when the average haul for Zones 1 & 2 was increased from 133 miles to 189 miles. The same average haul miles were used in Dockets No. R90-1, R94-1, and MC95-1. Scanning the workpapers and interrogatory responses for previous cases reveals that the original estimation of the average haul miles dates back to the mid-1970s.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-10, Page 2 of 2

[b] No. It is my understanding that HCSS does not contain any mail-specific information. In other words, it contains information by truck, but not on the type of mail carried on those trucks. In addition, contracts are specific to an account (intra-SCF, inter-SCF, etc.,) such that it is extremely unlikely that a single contract would provide all the highway transportation required for any piece of mail. For example, a piece of mail that travels from an originating AO to a destinating AO might receive intra-SCF transportation (to the SCF), inter-SCF transportation (from the originating SCF to the destinating SCF), and another leg of intra-SCF transportation (to the destinating AO). Specifics on the actual routings of any class of mail are not available in HCSS.

[c] Redirected to Witness Bradley (USPS-T-13).

[d] Redirected to Witness Nieto.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-11

Is the proper percent of non-advertising content for rates in the periodical regular subclass that dividend that can be found in W/RR-G, p. 1, by dividing editorial pounds by total pounds, (54.5%) or is it found in W/P RR-D, line 20, which uses a figure of 58.7%?

Explain the differences between the two percentages.

RESPONSE

Both percents of non-advertising content are proper in their respective contexts.

The figure of 58.7 percent is derived from the actual column inches of advertising versus non-advertising content. The figure of 54.5 percent is based on pounds.

Since weight per piece is not constant for all periodicals, dividing editorial pounds by total pounds produces a different ratio. It appears that periodicals with higher advertising contents weigh more than periodicals with lower advertising content.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-12

Does USPS's recognition of non-distance dropship shipment cost savings (p. 19, lines 16-19) by reducing piece rates, not pound rates, result from a belief that platform and cross-docking costs that may be avoided are piece related and not pound-related? If your answer is negative, please explain the reason piece and not pound rates were reduced in this instance?

RESPONSE

No. Dropshipment rates for both SCF and DDU are proposed to be lower in Docket No. R97-1 compared to the Commission recommended rates in Docket No. MC95-1. The inclusion of non-transportation related cost savings would reduce dropshipment rates further, and would lead to higher increases for the distant zones. Once again, the Postal Service wants to avoid abrupt and large increases in any rate cell.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-13

Confirm that there are transportation costs incurred by USPS for mail dropshipped by the mailer into a SCF from which intra-SCF mail is transported to a delivery station or unit.

How are these costs allocated in your periodical rate design?

RESPONSE

Confirmed. Transportation costs are allocated between distance related and non-distance related costs. The distance related transportation costs are allocated to Zones 1&2 through Zone 8 by pound miles. The non-distance related transportation costs are allocated to zones and the SCF dropshipment category by pounds.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-14

With respect to your testimony at page 14, lines, 14-21, do you agree that editorial content should have an "inherent" cost coverage of 100%? Explain why or why not. If you have no opinion on the subject, please refer this question to the appropriate Postal Service witness.

RESPONSE

I agree with the Commission that the implicit cost coverage on editorial matter should not be below 100 percent. However, I would avoid abrupt rate changes in achieving this goal.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-15

At page 16, lines 8-9, should the reference to "0.01 cents" be corrected to "1 cent"?

RESPONSE

No.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-16

[a] In reference to your response to ABP/USPS-T-34-5 [a], you did not specifically elaborate on the meaning of the term "rate shock" as used in your testimony. Is the definition of "rate shock" as you refer to it in your testimony and as you responded to T-34-5[a] increases for rate cells that exceed 10%?

[b] Was the decision to "keep the increases below 10 percent" a management decision or your decision? If it was a management decision, who made the decision and what is the rationale for that decision?

RESPONSE

[a] Rate shock refers to a subjective assessment of the magnitude of particular rate increase. In terms of proportional increases, 10 percent seemed to be a good guideline, given the size of the overall rate increase (3.5 percent) and the small structural changes in Periodicals Regular Rate, that would still reflect, to some degree, costs and cost changes. This limit of plus or minus 10 percent reflects a subjective evaluation of effects that would constitute rate shock.

[b] I discussed this with management and we agreed that an upper limit of 10 percent was appropriate for regular rate periodicals given the overall increase for Periodicals Regular Rate.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP\USPS-T-34-17

[a] Please clarify your response to ABP/USPS-T-34-7[c] insofar you state that if the Postal Service reinstitutes SCF sacks, all mail in SCF sacks would be eligible for Basic rates yet USPS currently permits automation-qualified 3- and 5-digit sorted periodical mail in ADC sacks to be eligible for 3 and 5digit discounts. Given that situation, why would SCF sacks be treated any differently than ADC sacks, especially since the vast majority of ADCs are SCFs?

[b] If incoming primary and secondary distribution are done at an SCF to sort periodical pieces in 3- and 5-digit packages to the appropriate carrier routes, why would such pieces, if enclosed in a sack opened at that SCF, pay Basic per-piece rates?

RESPONSE

[a] and [b] Please see my revised response to USPS-T-34-7[c], filed on September 12, 1997, for clarification.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-18

[a] Your answer to ABP\USPS-T-34-8[d], which explains the non-performance of weight and cost studies by USPS, states that USPS cannot "complete" all studies it might have wished to complete because of "resource constraints." Did USPS, since the R94-1 opinion of the Postal Rate Commission, begin any studies that examine the effect of weight on periodical costs?

[b] Identify all studies in all rate and classification proceedings since R94-1 that examine the effect of weight on cost that USPS has performed, completed and presented as either testimony, exhibits to testimony, or library references. Please identify the docket number of each such proceeding, the witness sponsoring the testimony (if any) concerning a weight/cost study, and the subclass, rate category or special service concerning which the weight/cost study was completed.

[c] If studies about weight for other subclasses or rate categories other than second-class or periodicals were completed since the beginning of 1996, why were those studies considered to have greater priority than the periodical studies repeatedly called for by the Commission over a ten-year period?

RESPONSE

[a] Yes, but this study was terminated during 1996 because resources were needed for other projects.

[b] I am aware of two studies that the Postal Service has performed, completed, and presented as library references examining the effect of weight on cost.

Library Reference MCR-12 (from Docket No. MC95-1) examined the impact of weight on mail processing and some other costs for bulk third-class mail. LR-H-182 (from this docket) uses the new MODS pool/volume variability information

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-18 [b] Continued, Page 2 of 2

and analyzes the relationship between weight and total unit volume variable costs in Bulk Standard Mail (A).

[c] The Standard Mail (A) weight/cost study was deemed to have a higher priority for at least two reasons. First, Standard Mail (A) is a relatively much larger mail class by any standard (revenues, volumes, contribution, etc.). Second, in this docket the Postal Service is proposing a surcharge for nonletter, nonflat shaped pieces in Standard Mail (A). Since one of the reasons for the size of the pound rate in Standard Mail (A) is to proxy for parcels' increased presence in the heavier weight increments, explicitly surcharging parcels would suggest lowering the pound rate. The Docket No. R97-1 weight study was initiated to provide additional support for that important proposal.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP\USPS-T-34-19

Based on your response to ABP/USPS-T-34-11, can it be concluded that the nonadvertising pound rate in periodical regular rate subclass was constructed using a weight percentage for non-advertising pounds of 54.5%, and not a percentage of 58.7% which is derived according to your response from a measure of the actual column inches?

RESPONSE

The nonadvertising pound rate in the Periodical Regular Rate subclass was constructed using actual nonadvertising pounds as reported in the billing determinants rather than using either of the percentage figures in your question. Of those two percentages, 54.5 percent is the one derived from the actual nonadvertising pounds. See ABP/USPS-T-34-11.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-20

Your response to ABP/USPS-T-34-12 indicates that both pound and piece rates for dropshipped periodicals were reduced in your proposed rate design. On what cost evidence filed so far in this case did you decide to reduce pound rates for avoided *non-transportation*, distance-related costs, instead of applying those savings only to piece rates?

RESPONSE

Both pound and piece rates for dropshipped periodicals were reduced in my proposed rate design, but the savings referred to in my testimony on page 19, lines 16-19, and in your original question, were applied only to piece rates. The pound rate reduction was due to the rate design that allocated the pound rate target revenue in the following fashion:

Target Pound Rate Revenue was divided into distance related transportation, nondistance related transportation, and the residual, labeled non-transportation. The distance related transportation portion is paid for by all zones (1&2 through 8). The non-distance related transportation portion is paid for by all zones plus destination SCF (DSCF). The residual amount labeled nontransportation is paid for by all zones, DSCF, and destination delivery unit (DDU).

In your original question ABP/USPS-T-34-12, you had referred to "recognition of non-distance dropship shipment cost savings (p.19, lines 16-19)". These savings in my testimony are referred to as non-transportation drop shipment cost savings and are found in Library Reference H-111. These savings

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-20, Page 2 of 2

are applied to piece rates exclusively, as stated in my testimony (See USPS-T-34, p. 19, lines 16-19). The last part of your question "On what cost evidence filed so far in this case did you decide to reduce pound rates for avoided *non-transportation*, distance-related costs, instead of applying those savings only to piece rates?" is contrary to what my proposal puts forth.

ABP/USPS-T-34- 21

[a] Referring to your response to ABP/USPS-T-34-13, why are there no distance related costs allocated to intra-SCF mail, if as seems likely, postal transportation from SCFs to delivery facilities within the SCF area takes place on routes of varying lengths? If you do not agree that trips within the SCF area do have different lengths, please explain your position.

[b] In connection with part [a] above, do you agree that there can be point to point routes within an SCF as short as a mile and as long as distances in excess of 100 miles?

RESPONSE

[a] I agree that postal transportation from SCFs to delivery facilities within the SCF area may take place on routes of varying length. However, I do not allocate the distance-related transportation to SCF dropshipment pounds because my understanding is that the non-distance related transportation costs include all intra-SCF transportation, whereas the distance related transportation costs do not include intra-SCF transportation.

[b] Yes, but these costs nonetheless are treated as non-distance related. Please see the response to ABP/USPS-T-34-21[a] above.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-22

In question ABP/USPS-T-34-15, ABP asked you if the reference to "0.01 cents" at p.16, lines 8-9, of your testimony should be corrected to "1 cent." You answered simply "No." As a result, we checked your workpaper W/P RR-I, cell 39, and we will re-ask the question as follows: "Should the reference to ".01 cents" be corrected to ".1 cents"?

RESPONSE

Yes.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)  
(REDIRECTED FROM WITNESS MODEN)  
Revised October 17, 1997

ABP/USPS-T-4-11

[b] Workpaper RR-J, which accompanies USPS-T-34 (Witness Taufique), projects volumes of automated periodicals in the test year (after rates). Does this volume take into account deployment of bar-code readers on FSM 1000 before the end of the test year, as well as improvements to 812 FSM 881 flat sorters to which you refer to on p.13, line 7 of your testimony? If RR-J does not take into account added volumes of automated periodicals because of planned equipment deployment in FY 1998, what is estimate of added volume?

RESPONSE

[b] No, the TYAR volume reported in RR-J does not take into account any added volume of automated periodicals. Any added volumes of automated periodicals due to the referenced deployment and improvements have not been estimated.

Please see my response to MH/USPS-T34-6.

ABP/USPS-T-34-23

Does your workpaper RR-G explicitly explain or show how advertising zone rates for regular-rate periodicals are derived and calculated? If your answer is affirmative, identify the line or cell location that would explain the derivation of these rates from underlying data, in particular distance-related purchased transportation costs. If your answer is negative, please identify the workpaper, whether prepared by you or by another witness, that displays the requested calculations and the underlying distance-related transportation costs attributed to regular-rate periodicals that would answer this interrogatory.

## RESPONSE

The calculations for advertising zone rates are displayed in the workpaper RR-G. For example, the purchased transportation cost total (WP RR-G, p. 1, line 19) is multiplied by the distance-related transportation cost factor (line 20) to derive total distance-related transportation cost (line 23). This is then allocated to editorial pounds (line 30) and advertising pounds (line 37). The dollar amount in cell d37 (\$100,414,182), which represents the distance related transportation costs for advertising pounds, is then allocated to zones based on pound miles (product of average haul miles and test year pounds by zones) on WP RR-G, page 2. Specifically, on page 2, the 'Average Haul Miles' are multiplied by the numbers in column labeled 'Test Year Pounds Before Rates From WP RR-E' to derive pound miles which are distributed as percents in the next column. The dollar amount in cell d37 from page 1 is distributed to the zones using these weights. The electronic version of my workpapers is available in LR-H-205.

ABP/USPS-T-34-24

Do you agree that zoned pound rates for regular-rate periodicals are not accurate models of the progression of distance-related transportation costs over distance, particularly since the highway cost database, HCSS, described by Witness Bradley in USPS-T13, does not contain any mail-specific information, according to your earlier response to ABP/USPS-T34-10(b); see also FGSA/USPS-T13-11 (redirected from Witness Bradley to USPS for response)? If you do not agree, explain why you do not agree.

RESPONSE

No, I do not agree. The average haul miles reflect the relative differences in the distance traveled, and when combined with the pounds mailed in each of the zones, provide a reasonable method to allocate distance related transportation cost.

I do not rely on the HCSS database described by witness Bradley.

MH/USPS-T34-1. With reference to your testimony on p. 19, lines 10-14:

- a) Please explain fully (including all analytical steps and calculations) how you determined that editorial content would cover approximately 89 percent of its costs under your proposed rate design for Periodicals mail.
- b) What editorial content cost coverage would result under your proposed rate design for Periodicals Regular mail assuming that you were constrained to set the editorial pound charge at 75 percent of the zone 1/2 charge? Please explain your answer and calculation fully.
- c) Please explain fully all factors that cause the editorial content cost coverage under your proposed rate design for Periodicals Regular mail, and under the scenario posited in part (b) above, to be lower than the 95.5 percent editorial content cost coverage under the rate design recommended in Docket R94-1 (Op. & Rec. Dec. 1 5150).
- d) Please explain fully the extent to which your methodology in estimating editorial content cost coverage is or is not consistent with the methodology employed by witness Foster in Docket R94-1 ( see USPS-T-11, WP V.B, V.C. (as modified September 29, 1994) (attached hereto).
- e) Please confirm that your estimate of editorial content cost coverage is necessarily only a rough estimate because (among other things) it is based on the zone distribution for advertising pounds, which has no necessary or likely correspondence with the zone distribution for editorial pounds, and it also likely underestimates the piece revenue from high-editorial publications, which tend not to qualify for substantial presort discounts. To the extent you are unable to confirm, please explain fully.

## RESPONSE

- a) Please see USPS-T-34 Workpaper RR-C for the calculation of the implicit cost coverage for editorial content. The electronic version of this and other workpapers is available in LR-H-205. The calculation of editorial content cost coverage is analytically a straightforward proposition. The total number of pounds are multiplied by the editorial pound rate to derive pound revenues. The piece revenues are calculated by multiplying the

MH/USPS-T34-1(a) Continued, Page 2 of 5

piece rates by volumes in each of the presort categories. The revenue leakage from the editorial discount is calculated using 100 percent editorial content, which means multiplying the total pieces by the discount rate. These figures are added together and divided by the test year costs to derive the cost coverage.

- b) The editorial content cost coverage would be 87 percent if the editorial pound change is constrained to 75 percent of the zone 1 & 2 charge. The calculation basically requires changing the last cell in the second to last column on page 3 of USPS-T-34, Workpaper RR-G (LR-H-205). This change is carried through automatically to the editorial content worksheet (USPS-T-34, WP RR-C).
- c) The factors that cause the editorial content cost coverage to be lower in my proposed rate design as well as under the scenario posited in part (b) are:
  - 1. The major reason for the difference in the editorial content cost coverage, based on my analysis, is the difference in the target cost coverage for the Regular Rate subclass itself. The cost coverage for Regular Rate Periodicals in Docket No. R94-1 was 116.2 percent, whereas the target cost coverage in the present Docket is 107 percent.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF THE MCGRAW HILL COMPANIES

MH/USPS-T34-1( c ) Continued, Page 3 of 5

2. The revenue from Science of Agriculture (DDU, DSCF, and Zones 1 & 2, which should have been included, was not included in my calculation of the cost coverage. Inclusion of this revenue would cause a very small increase ( about 7/100 of a percent) in the cost coverage.
  3. I have used TYBR costs with contingency instead of TYAR costs with contingency. Once again, a small increase (about 4/10 of a percent) results in the cost coverage.
  4. A review of PRC-LR-13 in Docket No. R94-1 showed that the Science of Agriculture and Science of Agriculture commingled, Zones 1 & 2, DSCF, and DDU pound revenues were double counted, which when corrected for reduces the 95.5 cost coverage by a small percent (about 2/10 of a percent).
- d) The methodology for calculating editorial content cost coverage that I have used is consistent with the methodology employed by Witness Foster in Docket No. R94-1. Two differences are the non-inclusion of the Science of Agriculture Pound revenue and the use of TYBR costs instead of TYAR costs, as discussed in part ( c ) above.
- e) Not necessarily. There are three possible scenarios: 1) The distribution of editorial pounds is the same as advertising pounds in which case the

MH/USPS-T34-1( e ) Continued, Page 4 of 5

calculation of the editorial pound rate and the resulting cost coverage is reasonable. 2) The distribution of the editorial pound is concentrated more in the lower zones, which means that the editorial pound rate should be lower than what I have estimated. But, since the editorial content cost coverage is significantly lower than 100 percent , this issue does not become critical until the cost coverage starts to approach 100 percent. In other words, the editorial cost coverage can increase another 11 percent before it becomes a problem. 3) The last possibility is that the editorial content is concentrated in the higher zones in which case the proposed rate for editorial pounds is lower than what it should be.

If high editorial publications do not qualify for substantial presort discounts, as you have asserted, and I have no way to either confirm or refute this statement, then it is possible that the editorial cost coverage is underestimated. But, given that the presort discounts are worksharing discounts, this mail, that according to you does not receive substantial presort discount, also has a higher processing cost. Also, if the opposite is true, that high editorial content publications qualify for more presort discounts, then the cost coverage for editorial content is overestimated.

Once again, as the cost coverage for editorial content approaches 100 percent, the pound distribution of editorial content could be researched.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF THE MCGRAW HILL COMPANIES

4878

MH/USPS-T34-1( e ) Continued, Page 5 of 5

Presort discount qualification is a non-issue since it is directly related to cost saving activities of the mailers.

MH/USPS-T34-2. With reference to your response to ABP/USPS-T34-9:

- (a) What editorial content cost coverage would result assuming that 30 percent of Periodicals Regular revenues are to be generated by the pound rates, and assuming an editorial pound charge that is 75 percent of the zone 1/2 charge? Please explain your calculation fully.
- (b) What editorial content cost coverage would result assuming that 30 percent of Periodicals Regular revenues are to be generated by the pound rates, and assuming an editorial pound charge that is 80 percent of the zone 1/2 charge? Please explain your calculation fully.
- (c) What editorial content cost coverage would result assuming that 35 percent of Periodicals Regular revenues are to be generated by the pound rates, and assuming an editorial pound charge that is 75 percent of the zone 1/2 charge? Please explain your calculation fully.
- (d) What editorial content cost coverage would result assuming that 35 percent of Periodicals Regular revenues are to be generated by the pound rates, and assuming an editorial pound charge that is 80 percent of the zone 1/2 charge? Please explain your calculation fully.
- (e) In the scenario posited in part (d) above, what average increase in piece rates (over current rates) would result? Please explain your calculation fully.
- (f) In the scenario posited in part (d) above, to what extent do you estimate that the rate increase (over current rates) for any piece rate cell would exceed 10 percent? Please explain your answer fully.
- (g) In your view, could the increase in piece rates under the scenario posited in part (d) above be justified, in view of the reduced editorial pound charge, under statutory ratemaking criterion no. 8 (ECSI) (see USPS-T-30, p. 2)? Please explain your answer fully.

## RESPONSE

- a) The editorial content cost coverage is estimated to be approximately 88 percent. In USPS-T-34 WP RR-G page 2, the editorial rate was changed from .174 to .125 and in USPS-T-34 WP RR-D page 1, the proportion of revenue

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF THE MCGRAW HILL COMPANIES

4880

MH/USPS-T34-2. With reference to your response to ABP/USPS-T34-9:

- (a) What editorial content cost coverage would result assuming that 30 percent of Periodicals Regular revenues are to be generated by the pound rates, and assuming an editorial pound charge that is 17 percent of the zone 1/2 charge? Please explain your calculation fully.
- (b) What editorial content cost coverage would result assuming that 30 percent of Periodicals Regular revenues are to be generated by the pound rates, and assuming an editorial pound charge that is 80 percent of the zone 1/2 charge? Please explain your calculation fully.
- (c) What editorial content cost coverage would result assuming that 35 percent of Periodicals Regular revenues are to be generated by the pound rates, and assuming an editorial pound charge that is 75 percent of the zone 1/2 charge? Please explain your calculation fully.
- (d) What editorial content cost coverage would result assuming that 35 percent of Periodicals Regular revenues are to be generated by the pound rates, and assuming an editorial pound charge that is 80 percent of the zone 1/2 charge? Please explain your calculation fully.
- (e) In the scenario posited in part (d) above, what average increase in piece rates (over current rates) would result? Please explain your calculation fully.
- (f) In the scenario posited in part (d) above, to what extent do you estimate that the rate increase (over current rates) for any piece rate cell would exceed 10 percent? Please explain your answer fully.
- (g) In your view, could the increase in piece rates under the scenario posited in part (d) above be justified, in view of the reduced editorial pound charge, under statutory ratemaking criterion no. 8 (ECSI) (see USPS-T-30, p. 2)? Please explain your answer fully.

RESPONSE

- a) The editorial content cost coverage is estimated to be approximately 88 percent. In USPS-T-34 WP RR-G page 2, the editorial rate was changed from .174 to .125 and in USPS-T-34 WP RR-D page 1, the proportion of revenue

MH/USPS-T34-2, Page 2 of 3

to get from piece rates was changed from .59 to .70. The attached spreadsheets detail the cost coverage calculations.

- b) The editorial content cost coverage is estimated to be approximately 89 percent. In USPS-T-34 WP RR-G page 2, the editorial rate was changed from .174 to .134 and in USPS-T-34 WP RR-D page 1 proportion of revenue to get from piece rates was changed from .59 to .70. The attached spreadsheets detail the cost coverage calculations.
- c) The editorial content cost coverage is estimated to be approximately 87 percent. In USPS-T-34 WP RR-G page 2, the editorial rate was changed from .174 to .125 and in USPS-T-34 WP RR-D page 1, the proportion of revenue to get from piece rates was changed from .59 to .65. The attached spreadsheets detail the cost coverage calculations.
- d) The editorial content cost coverage is estimated to be approximately 88 percent. In USPS-T-34 WP RR-G page 2, the editorial rate was changed from .174 to .134, and in USPS-T-34 WP RR-D page 1, the proportion of revenue to get from piece rates was changed from .59 to .65. The attached spreadsheets detail the cost coverage calculations.
- e) The average increase in piece rates is estimated to be 16.6 percent. This result was obtained by further modifications to the appropriate workpapers having the modifications described in part (d) above. First USPS-T-34 WP RR-J was modified to calculate Piece Revenue per piece by summing piece

MH/USPS-T34-2(e) Continued, Page 3 of 3

revenue generated by the scenario described in d above then dividing by the number of pieces. This yielded the value \$0.155, a weighted average revenue per piece. Next, USPS-T-34 WP RR-E was used to calculate the weighted average revenue per piece under current rates, i.e., the piece revenue value of \$950,922,206 divided by the piece count of 7,172,571,146 to yield a weighted average piece revenue per piece of \$0.133. The difference between \$0.133 and \$0.155, divided by \$0.133, equals the weighted average percent change in the piece rates that would result under the scenario described in (d) above.

- f) According to WP RR-L page 1, under the scenario described in (d), 9 out of 12 piece rate cells would increase more than 10 percent – the highest by more than 25 percent. See attached.
- g) No. Rate designs must be evaluated in view of all nine criteria. The scenario posited in part (d), results in rate cell changes ranging from a decline of 27.8 percent rate cell change, for pound rate zoned delivery unit, to an increase of 25.3 percent, for carrier route high density pieces. The proposed rates exhibit a much more conservative degree of change in order to meet all nine of the rate making criteria. (see attached spreadsheet which lists each cell change, also see USPS-T-34 WP RR-L page 1.



RATE DEVELOPMENT: COMPARISON OF CURRENT TO PROPOSED RATES				
Rate Element	Type	Proposed Rates	Current Rates	Percent Change
ZONED ADVRTSG DELIVERY UNIT	POUNDS	0.092	0.169	-45.6%
ZONED ADVRTSG SCF	POUNDS	0.114	0.190	-40.0%
ZONED ADVRTSG ZONES 1&2	POUNDS	0.137	0.214	-36.0%
ZONED ADVRTSG ZONE 3	POUNDS	0.150	0.224	-33.0%
ZONED ADVRTSG ZONE 4	POUNDS	0.185	0.251	-26.3%
ZONED ADVRTSG ZONE 5	POUNDS	0.239	0.292	-18.2%
ZONED ADVRTSG ZONE 6	POUNDS	0.295	0.336	-12.2%
ZONED ADVRTSG ZONE 7	POUNDS	0.350	0.388	-9.8%
ZONED ADVRTSG ZONE 8	POUNDS	0.408	0.432	-5.6%
NONADVERTISING	POUNDS	0.103	0.161	-36.2%
SCI. OF AGRICULTURE DELIVERY OFFICE	POUNDS	0.069	0.127	-45.7%
SCI. OF AGRICULTURE SCF	POUNDS	0.086	0.143	-39.9%
SCI. OF AGRICULTURE ZONES 1&2	POUNDS	0.103	0.161	-36.0%
SCI. OF AGRICULTURE ZONE 3	POUNDS	0.150	0.224	-33.0%
SCI. OF AGRICULTURE ZONE 4	POUNDS	0.185	0.251	-26.3%
SCI. OF AGRICULTURE ZONE 5	POUNDS	0.239	0.292	-18.2%
SCI. OF AGRICULTURE ZONE 6	POUNDS	0.295	0.336	-12.2%
SCI. OF AGRICULTURE ZONE 7	POUNDS	0.350	0.388	-9.8%
SCI. OF AGRICULTURE ZONE 8	POUNDS	0.408	0.432	-5.6%
SCI. OF AGRICULTURE - NONADVERTISING	POUNDS	0.103	0.161	-36.2%
SCI OF AGI COMMNGLD NONSBSCRBR DELIVERY UNIT	POUNDS	0.092	0.169	-45.6%
SCI OF AGI COMMNGLD NONSBSCRBR SCF	POUNDS	0.114	0.190	-40.0%
SCI OF AGI COMMNGLD NONSBSCRBR ZONES 1&2	POUNDS	0.137	0.214	-36.0%
SCI OF AGI COMMNGLD NONSBSCRBR NONADVERTISING	POUNDS	0.103	0.161	-36.2%
BASIC NON-AUTOMATION	PIECES	0.295	0.240	22.9%
BASIC AUTOMATION LETTER	PIECES	0.214	0.194	10.3%
BASIC AUTOMATION FLAT	PIECES	0.253	0.209	21.1%
BASIC NON-AUTOMATION 3 DIGIT	PIECES	0.249	0.202	23.3%
BASIC AUTOMATION 3 DIGIT LETTER	PIECES	0.198	0.173	14.5%
BASIC AUTOMATION 3 DIGIT FLAT	PIECES	0.220	0.175	25.7%
BASIC NON-AUTOMATION 5 DIGIT	PIECES	0.246	0.202	21.8%
BASIC AUTOMATION 5 DIGIT LETTER	PIECES	0.194	0.173	12.1%
BASIC AUTOMATION 5 DIGIT FLAT	PIECES	0.218	0.175	24.6%
CARRIER ROUTE BASIC	PIECES	0.160	0.119	34.5%
CARRIER ROUTE HIGH DENSITY	PIECES	0.148	0.111	33.3%
CARRIER ROUTE SATURATION	PIECES	0.134	0.095	41.1%
PERCENTAGE EDITORIAL DISCOUNT	PIECES	-0.059	-0.057	3.5%
WKSHARING DISCNT/DELIVERY OFFICE ENTRY	PIECES	-0.023	-0.021	9.5%
WKSHARING DISCNT SCF ENTRY	PIECES	-0.012	-0.011	9.1%
BASIC NONAUTOMATION	PIECES	0.295	0.240	22.9%
BASIC AUTOMATION LETTER	PIECES	0.214	0.194	10.3%
BASIC AUTOMATION FLAT	PIECES	0.253	0.209	21.1%
3 DIGIT NONAUTOMATION	PIECES	0.249	0.202	23.3%
3 DIGIT AUTOMATION LETTER	PIECES	0.198	0.173	14.5%
3 DIGIT AUTOMATION FLAT	PIECES	0.220	0.175	25.7%
5 DIGIT NONAUTOMATION	PIECES	0.246	0.202	21.8%
5-DIGIT AUTOMATION LETTER	PIECES	0.194	0.173	12.1%
5 DIGIT AUTOMATION FLAT	PIECES	0.218	0.175	24.6%
CARRIER ROUTE	PIECES	0.160	0.119	34.5%
HIGH DENSITY	PIECES	0.148	0.111	33.3%
SATURATION	PIECES	0.134	0.095	41.1%
SCI. OF AGRICULTURE - Editorial Discount	PIECES	-0.059	-0.057	3.5%
SCI. OF AGRICULTURE - Pc. Disc. Delivery Unit	PIECES	-0.023	-0.021	9.5%
SCI. OF AGRICULTURE - Pc. Disc. SCF	PIECES	-0.012	-0.011	9.1%
		0.000		
SCI OF AGI COMMNGLD NONSBSCRBR - Basic Nonautomation	PIECES	0.295	0.240	22.9%
SCI OF AGI COMMNGLD NONSBSCRBR - Basic Automation Flat	PIECES	0.000	0.000	
SCI OF AGI COMMNGLD NONSBSCRBR - Editorial Discount	PIECES	-0.059	-0.057	3.5%
SCI OF AGI COMMNGLD NONSBSCRBR - Pc. Disc. SCF	PIECES	-0.012	-0.011	9.1%

Attachment  
Responses To  
MH/USPS-T3. (9)  
Page 2 of 3

ATTACHMENT 1  
 RESPONSES  
 MH/USPS-T34-2 (A)  
 Page 3 of 3

Rate Element	Type	TYBR Volume	Rate	Revenue
ZONED ADVRTSG DELIVERY UNIT	POUNDS	9,960,014	0.092 \$	916,321
ZONED ADVRTSG SCF	POUNDS	457,293,337	0.114 \$	52,131,440
ZONED ADVRTSG ZONES 1&2	POUNDS	269,890,184	0.137 \$	36,974,955
ZONED ADVRTSG ZONE 3	POUNDS	144,962,455	0.150 \$	21,729,368
ZONED ADVRTSG ZONE 4	POUNDS	219,542,082	0.185 \$	40,689,285
ZONED ADVRTSG ZONE 5	POUNDS	220,818,387	0.239 \$	52,775,594
ZONED ADVRTSG ZONE 6	POUNDS	78,526,726	0.295 \$	23,165,384
ZONED ADVRTSG ZONE 7	POUNDS	61,288,769	0.350 \$	21,451,069
ZONED ADVRTSG ZONE 8	POUNDS	53,977,529	0.408 \$	22,022,832
NONADVERTISING	POUNDS	1,814,919,103	0.103 \$	186,482,938
SCI OF AGRICULTURE DELIVERY OFFICE	POUNDS	21,317	0.069 \$	1,471
SCI OF AGRICULTURE SCF	POUNDS	1,112,830	0.086 \$	95,703
SCI OF AGRICULTURE ZONES 1&2	POUNDS	4,795,307	0.103 \$	493,917
SCI OF AGRICULTURE ZONE 3	POUNDS	239,597	0.150 \$	35,940
SCI OF AGRICULTURE ZONE 4	POUNDS	136,690	0.185 \$	25,288
SCI OF AGRICULTURE ZONE 5	POUNDS	76,351	0.239 \$	18,248
SCI OF AGRICULTURE ZONE 6	POUNDS	7,429	0.295 \$	2,192
SCI OF AGRICULTURE ZONE 7	POUNDS	7,491	0.350 \$	2,622
SCI OF AGRICULTURE ZONE 8	POUNDS	6,063	0.408 \$	2,482
SCI OF AGRICULTURE - NONADVERTISING	POUNDS	1,142,415	0.10275 \$	117,383
SCI OF AGI COMMNGLD NONSBSRBR DELIVERY UNIT	POUNDS	0	0.092 \$	-
SCI OF AGI COMMNGLD NONSBSRBR SCF	POUNDS	2,075	0.114 \$	237
SCI OF AGI COMMNGLD NONSBSRBR ZONES 1&2	POUNDS	13,355	0.137 \$	1,830
SCI OF AGI COMMNGLD NONSBSRBR NONADVERTISING	POUNDS	2,988	0.103 \$	307
BASIC NON-AUTOMATION	PIECES	359,096,511	0.295 \$	105,933,471
BASIC AUTOMATION LETTER	PIECES	32,390,359	0.214 \$	6,931,537
BASIC AUTOMATION FLAT	PIECES	107,675,736	0.253 \$	27,241,961
BASIC NON-AUTOMATION 3 DIGIT	PIECES	999,671,188	0.249 \$	248,918,126
BASIC AUTOMATION 3 DIGIT LETTER	PIECES	12,071,964	0.198 \$	2,390,249
BASIC AUTOMATION 3 DIGIT FLAT	PIECES	575,067,526	0.220 \$	126,514,856
BASIC NON-AUTOMATION 5 DIGIT	PIECES	1,165,017,357	0.246 \$	285,594,270
BASIC AUTOMATION 5 DIGIT LETTER	PIECES	22,616,168	0.194 \$	4,387,537
BASIC AUTOMATION 5 DIGIT FLAT	PIECES	1,077,357,740	0.218 \$	234,863,987
CARRIER ROUTE BASIC	PIECES	2,785,226,710	0.160 \$	445,636,274
CARRIER ROUTE HIGH DENSITY	PIECES	19,901,228	0.148 \$	2,945,382
CARRIER ROUTE SATURATION	PIECES	16,478,658	0.134 \$	2,208,140
PERCENTAGE EDITORIAL DISCOUNT	PIECES	4,205,041,617	-0.059 \$	(248,097,455)
WKSHARING DISCNT DELIVERY OFFICE ENTRY	PIECES	39,442,931	-0.023 \$	(907,187)
WKSHARING DISCNT SCF ENTRY	PIECES	2,151,456,669	-0.012 \$	(25,817,480)
BASIC NONAUTOMATION	PIECES	0	0.295 \$	-
BASIC AUTOMATION LETTER	PIECES	0	0.214 \$	-
BASIC AUTOMATION FLAT	PIECES	0	0.253 \$	-
3 DIGIT NONAUTOMATION	PIECES	0	0.249 \$	-
3 DIGIT AUTOMATION LETTER	PIECES	0	0.198 \$	-
3 DIGIT AUTOMATION FLAT	PIECES	0	0.220 \$	-
5 DIGIT NONAUTOMATION	PIECES	0	0.246 \$	-
5-DIGIT AUTOMATION LETTER	PIECES	0	0.194 \$	-
5 DIGIT AUTOMATION FLAT	PIECES	0	0.218 \$	-
CARRIER ROUTE	PIECES	0	0.160 \$	-
HIGH DENSITY	PIECES	0	0.148 \$	-
SATURATION	PIECES	0	0.134 \$	-
SCI OF AGRICULTURE - Editorial Discount	PIECES	2,842,356	-0.059 \$	(167,699)
SCI OF AGRICULTURE - Pc Disc Delivery Unit	PIECES	227,597	-0.023 \$	(5,235)
SCI OF AGRICULTURE - Pc Disc SCF	PIECES	594,939	-0.012 \$	(7,139)
SCI OF AGI COMMNGLD NONSBSRBR - Basic Nonautomation	PIECES	32,413	0.295 \$	9,562
SCI OF AGI COMMNGLD NONSBSRBR - Basic Automation Flat	PIECES	0	0.000 \$	-
SCI OF AGI COMMNGLD NONSBSRBR - Editorial Discount	PIECES	11,635	-0.059 \$	(686)
SCI OF AGI COMMNGLD NONSBSRBR - Pc Disc SCF	PIECES	0	-0.012 \$	-
Total Revenue				\$ 1,678,591,890
Total Regular Rate & SOA Pieces		7,172,571,146		
Total Pieces		7,172,571,146		
RPW Adjustment Factor				100.084%
RPW Adjusted Revenue				\$ 1,679,996,236
Fee Revenue				\$ 14,651,000
Total Revenue including fees				\$ 1,694,647,236
TYBR Cost				\$ 1,586,273,680
Cost Coverage				1.0683
Desired Cost Coverage				1.0700

Average Total RPW Adjusted Revenue Per Piece W/O Fees \$ 0.234

IMPLICIT COST COVERAGE FOR EDITORIAL AND ADVERTISING MATTER

Responses To  
MH/USPS T34  
Page 1 of 3 (b)

	Test Year Volume	Zone Volume Percents	Redistributed	Redistributed	Proposed Rates	100% Advertising	100% Editorial
			Editorial Lbs.	Total Pounds			
Delivery Unit	9,960,014	0.66%	11,915,650	21,875,665	0.092	\$ 2,012,561	
SCF	457,295,412	30.14%	547,084,783	1,004,380,195	0.114	\$ 114,499,342	
Zones 1&2	269,903,539	17.79%	322,898,754	592,802,293	0.137	\$ 81,213,914	
Zone 3	145,102,052	9.56%	173,592,655	318,694,706	0.150	\$ 47,804,206	
Zone 4	220,078,772	14.51%	263,290,958	483,369,730	0.185	\$ 89,423,400	
Zone 5	220,894,738	14.56%	264,267,138	485,161,876	0.239	\$ 115,953,688	
Zone 6	78,534,156	5.18%	93,954,237	172,488,392	0.295	\$ 50,884,076	
Zone 7	61,296,260	4.04%	73,331,702	134,627,962	0.350	\$ 47,119,787	
Zone 8	53,983,612	3.56%	64,583,226	118,566,838	0.408	\$ 48,375,270	
Advertising Total	1,517,048,553	100.00%				\$ 597,286,244	
Editorial Pounds	1,814,919,103		1,814,919,103		0.110	\$ -	\$ 365,183,655
Total Pounds	3,331,967,657			3,331,967,657		Deleted(Not needed)	\$ 365,183,655
	Pieces				Pc. Rate	Pc. Revenue	
BASIC NON-AUTOMATION	359,096,511				0.293	\$ 105,215,278	\$ 105,215,278
BASIC AUTOMATION LETTER	32,390,359				0.212	\$ 6,866,756	\$ 6,866,756
BASIC AUTOMATION FLAT	107,675,736				0.251	\$ 27,026,610	\$ 27,026,610
BASIC NON-AUTOMATION 3 DIGIT	999,671,188				0.247	\$ 246,918,783	\$ 246,918,783
BASIC AUTOMATION 3 DIGIT LETTER	12,071,964				0.196	\$ 2,366,105	\$ 2,366,105
BASIC AUTOMATION 3 DIGIT FLAT	575,067,526				0.218	\$ 125,364,721	\$ 125,364,721
BASIC NON-AUTOMATION 5 DIGIT	1,165,017,357				0.244	\$ 284,264,235	\$ 284,264,235
BASIC AUTOMATION 5 DIGIT LETTER	22,616,168				0.192	\$ 4,342,304	\$ 4,342,304
BASIC AUTOMATION 5 DIGIT FLAT	1,077,357,740				0.216	\$ 232,709,272	\$ 232,709,272
CARRIER ROUTE BASIC	2,785,226,710				0.158	\$ 440,065,820	\$ 440,065,820
CARRIER ROUTE HIGH DENSITY	19,901,228				0.146	\$ 2,905,579	\$ 2,905,579
CARRIER ROUTE SATURATION	16,478,658				0.132	\$ 2,175,183	\$ 2,175,183
WKSHARING DISCNT DELIVERY OFFICE ENTRY	39,442,931				-0.023	\$ (907,187)	\$ (907,187)
WKSHARING DISCNT SCF ENTRY	2,151,456,669				-0.012	\$ (25,817,480)	\$ (25,817,480)
PERCENTAGE EDITORIAL DISCOUNT @ 100%	7,172,571,146	100.00%			-0.059		\$ (423,181,698)
Total						\$ 1,453,495,979	\$ 1,030,314,281
Total Revenues Pieces & Pounds						\$ 2,050,782,223	\$ 1,395,497,936
RPW Adjustment Factor						100.0837%	100.0837%
Revenue * RPW Adjustment Factor						2,052,497,951	1,396,665,440
Fees						14,651,000	14,651,000
Revenue with Fees						2,067,148,951	1,411,316,440
TYBR Cost with Contingency						1,586,273,680	1,586,273,680
Cost Coverage						1.303147734	0.889705514

# Periodicals: Regular Rates

4887

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 Response:  
 MH/USPS- 4-2 (b)  
 Page 2 of 3

Rate Element	Type	Proposed Rates	Current Rates	Percent Change
ZONED ADVRTSG DELIVERY UNIT	POUNDS	0.092	0.169	-45.6%
ZONED ADVRTSG SCF	POUNDS	0.114	0.190	-40.0%
ZONED ADVRTSG ZONES 1&2	POUNDS	0.137	0.214	-36.0%
ZONED ADVRTSG ZONE 3	POUNDS	0.150	0.224	-33.0%
ZONED ADVRTSG ZONE 4	POUNDS	0.185	0.251	-26.3%
ZONED ADVRTSG ZONE 5	POUNDS	0.239	0.292	-18.2%
ZONED ADVRTSG ZONE 6	POUNDS	0.295	0.336	-12.2%
ZONED ADVRTSG ZONE 7	POUNDS	0.350	0.388	-9.8%
ZONED ADVRTSG ZONE 8	POUNDS	0.408	0.432	-5.6%
NONADVERTISING	POUNDS	0.110	0.161	-31.9%
SCI. OF AGRICULTURE DELIVERY OFFICE	POUNDS	0.069	0.127	-45.7%
SCI OF AGRICULTURE SCF	POUNDS	0.086	0.143	-39.9%
SCI OF AGRICULTURE ZONES 1&2	POUNDS	0.103	0.161	-36.0%
SCI OF AGRICULTURE ZONE 3	POUNDS	0.150	0.224	-33.0%
SCI OF AGRICULTURE ZONE 4	POUNDS	0.185	0.251	-26.3%
SCI OF AGRICULTURE ZONE 5	POUNDS	0.239	0.292	-18.2%
SCI OF AGRICULTURE ZONE 6	POUNDS	0.295	0.336	-12.2%
SCI OF AGRICULTURE ZONE 7	POUNDS	0.350	0.388	-9.8%
SCI OF AGRICULTURE ZONE 8	POUNDS	0.408	0.432	-5.6%
SCI OF AGRICULTURE - NONADVERTISING	POUNDS	0.110	0.161	-31.9%
SCI OF AGI COMMNGLD NONSBSRBR DELIVERY UNIT	POUNDS	0.092	0.169	-45.6%
SCI OF AGI COMMNGLD NONSBSRBR SCF	POUNDS	0.114	0.190	-40.0%
SCI OF AGI COMMNGLD NONSBSRBR ZONES 1&2	POUNDS	0.137	0.214	-36.0%
SCI OF AGI COMMNGLD NONSBSRBR NONADVERTISING	POUNDS	0.110	0.161	-31.9%
BASIC NON-AUTOMATION	PIECES	0.293	0.240	22.1%
BASIC AUTOMATION LETTER	PIECES	0.212	0.194	9.3%
BASIC AUTOMATION FLAT	PIECES	0.251	0.209	20.1%
BASIC NON-AUTOMATION 3 DIGIT	PIECES	0.247	0.202	22.3%
BASIC AUTOMATION 3 DIGIT LETTER	PIECES	0.196	0.173	13.3%
BASIC AUTOMATION 3 DIGIT FLAT	PIECES	0.218	0.175	24.6%
BASIC NON-AUTOMATION 5 DIGIT	PIECES	0.244	0.202	20.8%
BASIC AUTOMATION 5 DIGIT LETTER	PIECES	0.192	0.173	11.0%
BASIC AUTOMATION 5 DIGIT FLAT	PIECES	0.216	0.175	23.4%
CARRIER ROUTE BASIC	PIECES	0.158	0.119	32.8%
CARRIER ROUTE HIGH DENSITY	PIECES	0.146	0.111	31.5%
CARRIER ROUTE SATURATION	PIECES	0.132	0.095	38.9%
PERCENTAGE EDITORIAL DISCOUNT	PIECES	-0.059	-0.057	3.5%
WKSHARING DISCNT DELIVERY OFFICE ENTRY	PIECES	-0.023	-0.021	9.5%
WKSHARING DISCNT SCF ENTRY	PIECES	-0.012	-0.011	9.1%
BASIC NONAUTOMATION	PIECES	0.293	0.240	22.1%
BASIC AUTOMATION LETTER	PIECES	0.212	0.194	9.3%
BASIC AUTOMATION FLAT	PIECES	0.251	0.209	20.1%
3 DIGIT NONAUTOMATION	PIECES	0.247	0.202	22.3%
3 DIGIT AUTOMATION LETTER	PIECES	0.196	0.173	13.3%
3 DIGIT AUTOMATION FLAT	PIECES	0.218	0.175	24.6%
5 DIGIT NONAUTOMATION	PIECES	0.244	0.202	20.8%
5-DIGIT AUTOMATION LETTER	PIECES	0.192	0.173	11.0%
5 DIGIT AUTOMATION FLAT	PIECES	0.216	0.175	23.4%
CARRIER ROUTE	PIECES	0.158	0.119	32.8%
HIGH DENSITY	PIECES	0.146	0.111	31.5%
SATURATION	PIECES	0.132	0.095	38.9%
SCI OF AGRICULTURE - Editorial Discount	PIECES	-0.059	-0.057	3.5%
SCI OF AGRICULTURE - Pc Disc Delivery Unit	PIECES	-0.023	-0.021	9.5%
SCI OF AGRICULTURE - Pc Disc SCF	PIECES	-0.012	-0.011	9.1%
		0.000		
SCI OF AGI COMMNGLD NONSBSRBR - Basic Nonautomation	PIECES	0.293	0.240	22.1%
SCI OF AGI COMMNGLD NONSBSRBR - Basic Automation Flat	PIECES	0.000	0.000	
SCI OF AGI COMMNGLD NONSBSRBR - Editorial Discount	PIECES	-0.059	-0.057	3.5%
SCI OF AGI COMMNGLD NONSBSRBR - Pc Disc SCF	PIECES	-0.012	-0.011	9.1%

RATE DEVELOPMENT: TYBR VOLUMES, TYAR RATES, AND REVENUE

4888

Attachment 7  
 Responses To  
 MH, USPS - T 37 2 (b)  
 Page 3 of 3

Rate Element	Type	TYBR Volume	Rates	Revenue
ZONED ADVRTSG DELIVERY UNIT	POUNDS	9 560 014	0 092 \$	916 321
ZONED ADVRTSG SCF	POUNDS	457 293 337	0 114 \$	52 131 440
ZONED ADVRTSG ZONES 1&2	POUNDS	269 890 184	0 137 \$	35 974 955
ZONED ADVRTSG ZONE 3	POUNDS	144 862 455	0 150 \$	21 729 368
ZONED ADVRTSG ZONE 4	POUNDS	219 942 082	0 185 \$	40 689 285
ZONED ADVRTSG ZONE 5	POUNDS	220 818 387	0 239 \$	52 775 594
ZONED ADVRTSG ZONE 6	POUNDS	78 525 725	0 295 \$	23 165 384
ZONED ADVRTSG ZONE 7	POUNDS	51 288 769	0 350 \$	21 451 069
ZONED ADVRTSG ZONE 8	POUNDS	53 977 529	0 408 \$	22 022 832
NONADVERTISING	POUNDS	1 814 919 103	0 110 \$	198 915 134
SC: OF AGRICULTURE DELIVERY OFFICE	POUNDS	21 317	0 069 \$	1 471
SC: OF AGRICULTURE SCF	POUNDS	1 112 830	0 086 \$	95 703
SC: OF AGRICULTURE ZONES 1&2	POUNDS	4 795 307	0 103 \$	493 917
SC: OF AGRICULTURE ZONE 3	POUNDS	239 597	0 150 \$	35 940
SC: OF AGRICULTURE ZONE 4	POUNDS	136 590	0 185 \$	25 288
SC: OF AGRICULTURE ZONE 5	POUNDS	76 351	0 239 \$	18 248
SC: OF AGRICULTURE ZONE 6	POUNDS	7 429	0 295 \$	2 192
SC: OF AGRICULTURE ZONE 7	POUNDS	7 491	0 350 \$	2 622
SC: OF AGRICULTURE ZONE 8	POUNDS	5 083	0 408 \$	2 482
SC: OF AGRICULTURE - NONADVERTISING	POUNDS	1 142 415	0 1066 \$	125 209
SC: OF AG: COMMNGLD NONSBSCRBR DELIVERY UNIT	POUNDS	0	0 092 \$	-
SC: OF AG: COMMNGLD NONSBSCRBR SCF	POUNDS	2 075	0 114 \$	237
SC: OF AG: COMMNGLD NONSBSCRBR ZONES 1&2	POUNDS	13 355	0 137 \$	1 830
SC: OF AG: COMMNGLD NONSBSCRBR NONADVERTISING	POUNDS	2 988	0 110 \$	328
BASIC NON-AUTOMATION	PIECES	359 096 511	0 293 \$	105 215 278
BASIC AUTOMATION LETTER	PIECES	32 390 359	0 212 \$	6 866 756
BASIC AUTOMATION FLAT	PIECES	107 573 736	0 251 \$	27 026 610
BASIC NON-AUTOMATION 3 DIGIT	PIECES	999 571 188	0 247 \$	246 918 783
BASIC AUTOMATION 3 DIGIT LETTER	PIECES	12 071 964	0 196 \$	2 366 105
BASIC AUTOMATION 3 DIGIT FLAT	PIECES	575 067 525	0 218 \$	125 364 721
BASIC NON-AUTOMATION 5 DIGIT	PIECES	1 165 017 357	0 244 \$	284 264 235
BASIC AUTOMATION 5 DIGIT LETTER	PIECES	22 515 158	0 192 \$	4 342 304
BASIC AUTOMATION 5 DIGIT FLAT	PIECES	1 077 357 740	0 216 \$	232 709 272
CARRIER ROUTE BASIC	PIECES	2 785 225 710	0 158 \$	440 065 820
CARRIER ROUTE HIGH DENSITY	PIECES	19 901 228	0 146 \$	2 905 579
CARRIER ROUTE SATURATION	PIECES	16 478 558	0 132 \$	2 175 183
PERCENTAGE EDITORIAL DISCOUNT	PIECES	4 205 041 617	-0 059 \$	(248 097 455)
AKSHARING DISCNT DELIVERY OFFICE ENTRY	PIECES	39 442 931	-0 023 \$	(907 187)
AKSHARING DISCNT SCF ENTRY	PIECES	2 151 456 569	-0 012 \$	(25 817 480)
BASIC NONAUTOMATION	PIECES	0	0 293 \$	-
BASIC AUTOMATION LETTER	PIECES	0	0 212 \$	-
BASIC AUTOMATION FLAT	PIECES	0	0 251 \$	-
3 DIGIT NONAUTOMATION	PIECES	0	0 247 \$	-
3 DIGIT AUTOMATION LETTER	PIECES	0	0 196 \$	-
3 DIGIT AUTOMATION FLAT	PIECES	0	0 218 \$	-
5 DIGIT NONAUTOMATION	PIECES	0	0 244 \$	-
5 DIGIT AUTOMATION LETTER	PIECES	0	0 192 \$	-
5 DIGIT AUTOMATION FLAT	PIECES	0	0 216 \$	-
CARRIER ROUTE	PIECES	0	0 158 \$	-
HIGH DENSITY	PIECES	0	0 146 \$	-
SATURATION	PIECES	0	0 132 \$	-
SC: OF AGRICULTURE - Editorial Discount	PIECES	2 842 356	-0 059 \$	(167 699)
SC: OF AGRICULTURE - Pc Disc Delivery Unit	PIECES	227 597	-0 023 \$	(5 235)
SC: OF AGRICULTURE - Pc Disc SCF	PIECES	594 939	-0 012 \$	(7 139)
SC: OF AG: COMMNGLD NONSBSCRBR - Basic Nonautomation	PIECES	32 413	0 293 \$	9 497
SC: OF AG: COMMNGLD NONSBSCRBR - Basic Automation Flat	PIECES	0	0 000 \$	-
SC: OF AG: COMMNGLD NONSBSCRBR - Editorial Discount	PIECES	11 635	-0 059 \$	(686)
SC: OF AG: COMMNGLD NONSBSCRBR - Pc Disc SCF	PIECES	0	-0 012 \$	-
Total Revenue				\$ 1 676 678 900
Total Regular Rate & SOA Pieces		7 172 571 146		
Total Pieces		7 172 571 146		
RPW Adjustment Factor				100 084%
RPW Adjusted Revenue				\$ 1 678 081 645
Fee Revenue				\$ 14 651 000
Total Revenue including fees				\$ 1 692 732 645
TYBR Cost				\$ 1 586 273 680
Cost Coverage				1 0671
Desired Cost Coverage				1 0700
Average Total RPW Adjusted Revenue Per Piece, W/O Fees			\$	0 234



RATE DEVELOPMENT: TYBR VOLUMES, TYAR RATES, AND REVENUE

4890

Attachment To Responses To MM/USPS-T34 2000 Page 2 of 3

Rate Element	Type	TYBR Volume	Rate	Revenue
ZONED ADVRTSG DELIVERY UNIT	POUNDS	9 960 014	0 122	\$ 1,215,122
ZONED ADVRTSG SCF	POUNDS	457 293 337	0 144	\$ 65,850,240
ZONED ADVRTSG ZONES 1&2	POUNDS	269 890 184	0 167	\$ 45,071,661
ZONED ADVRTSG ZONE 3	POUNDS	144 862 455	0 180	\$ 26,075,242
ZONED ADVRTSG ZONE 4	POUNDS	219 942 082	0 215	\$ 47,287,548
ZONED ADVRTSG ZONE 5	POUNDS	220 918 387	0 269	\$ 59,400,146
ZONED ADVRTSG ZONE 6	POUNDS	78 525 726	0 325	\$ 25,521,186
ZONED ADVRTSG ZONE 7	POUNDS	51 288 759	0 380	\$ 23,289,732
ZONED ADVRTSG ZONE 8	POUNDS	53 977 529	0 438	\$ 23,642,158
NONADVERTISING	POUNDS	1 814 919 103	0 125	\$ 227,318,618
SCI OF AGRICULTURE DELIVERY OFFICE	POUNDS	21 317	0 092	\$ 1,961
SCI OF AGRICULTURE SCF	POUNDS	1 112 830	0 108	\$ 120,186
SCI OF AGRICULTURE ZONES 1&2	POUNDS	4 795 307	0 125	\$ 599,413
SCI OF AGRICULTURE ZONE 3	POUNDS	239 597	0 180	\$ 43,127
SCI OF AGRICULTURE ZONE 4	POUNDS	136 590	0 215	\$ 29,388
SCI OF AGRICULTURE ZONE 5	POUNDS	76 351	0 269	\$ 20,538
SCI OF AGRICULTURE ZONE 6	POUNDS	7 429	0 325	\$ 2,415
SCI OF AGRICULTURE ZONE 7	POUNDS	7 491	0 380	\$ 2,846
SCI OF AGRICULTURE ZONE 8	POUNDS	6 083	0 438	\$ 2,664
SCI OF AGRICULTURE - NONADVERTISING	POUNDS	1 142 415	0 12525	\$ 143,087
SCI OF AGI COMMNGLD NONSBSRBR DELIVERY UNIT	POUNDS	0	0 122	\$ -
SCI OF AGI COMMNGLD NONSBSRBR SCF	POUNDS	2 075	0 144	\$ 299
SCI OF AGI COMMNGLD NONSBSRBR ZONES 1&2	POUNDS	13 355	0 167	\$ 2,230
SCI OF AGI COMMNGLD NONSBSRBR NONADVERTISING	POUNDS	2 988	0 125	\$ 374
BASIC NON-AUTOMATION	PIECES	359 096 511	0 282	\$ 101,265,216
BASIC AUTOMATION LETTER	PIECES	32 390 359	0 201	\$ 6,510,462
BASIC AUTOMATION FLAT	PIECES	107 675 736	0 240	\$ 25,842,177
BASIC NON-AUTOMATION 3 DIGIT	PIECES	999 671 188	0 236	\$ 235,922,400
BASIC AUTOMATION 3 DIGIT LETTER	PIECES	12 071 964	0 185	\$ 2,233,313
BASIC AUTOMATION 3 DIGIT FLAT	PIECES	575 067 526	0 207	\$ 119,038,978
BASIC NON-AUTOMATION 5 DIGIT	PIECES	1 165 017 357	0 233	\$ 271,449,044
BASIC AUTOMATION 5 DIGIT LETTER	PIECES	22 616 168	0 181	\$ 4,093,526
BASIC AUTOMATION 5 DIGIT FLAT	PIECES	1 077 357 740	0 205	\$ 220,858,337
CARRIER ROUTE BASIC	PIECES	2 785 226 710	0 147	\$ 409,428,326
CARRIER ROUTE HIGH DENSITY	PIECES	19 901 228	0 135	\$ 2,686,666
CARRIER ROUTE SATURATION	PIECES	16 478 658	0 121	\$ 1,993,918
PERCENTAGE EDITORIAL DISCOUNT	PIECES	4 205 041 617	-0 059	\$ (248,097,455)
MARKSHARING DISCNT DELIVERY OFFICE ENTRY	PIECES	39 442 931	-0 023	\$ (907,187)
MARKSHARING DISCNT SCF ENTRY	PIECES	2 151 456 669	-0 012	\$ (25,817,480)
BASIC NONAUTOMATION	PIECES	0	0 282	\$ -
BASIC AUTOMATION LETTER	PIECES	0	0 201	\$ -
BASIC AUTOMATION FLAT	PIECES	0	0 240	\$ -
3 DIGIT NONAUTOMATION	PIECES	0	0 236	\$ -
3 DIGIT AUTOMATION LETTER	PIECES	0	0 185	\$ -
3 DIGIT AUTOMATION FLAT	PIECES	0	0 207	\$ -
5 DIGIT NONAUTOMATION	PIECES	0	0 233	\$ -
5 DIGIT AUTOMATION LETTER	PIECES	0	0 181	\$ -
5 DIGIT AUTOMATION FLAT	PIECES	0	0 205	\$ -
CARRIER ROUTE	PIECES	0	0 147	\$ -
HIGH DENSITY	PIECES	0	0 135	\$ -
SATURATION	PIECES	0	0 121	\$ -
SCI OF AGRICULTURE - Editorial Discount	PIECES	2 842 356	-0 059	\$ (167,699)
SCI OF AGRICULTURE - Pc Disc Delivery Unit	PIECES	227 597	-0 023	\$ (5,235)
SCI OF AGRICULTURE - Pc Disc SCF	PIECES	594 939	-0 012	\$ (7,139)
SCI OF AGI COMMNGLD NONSBSRBR - Basic Nonautomation	PIECES	32 413	0 282	\$ 9,140
SCI OF AGI COMMNGLD NONSBSRBR - Basic Automation Flat	PIECES	0	0 000	\$ -
SCI OF AGI COMMNGLD NONSBSRBR - Editorial Discount	PIECES	11 535	-0 059	\$ (686)
SCI OF AGI COMMNGLD NONSBSRBR - Pc Disc SCF	PIECES	0	-0 012	\$ -
Total Revenue				\$ 1,671,825,717
Total Regular Rate & SOA Pieces		7,172,571,146		
Total Pieces		7,172,571,146		
RPW Adjustment Factor				100 084%
RPW Adjusted Revenue				\$ 1,673,224,402
Fee Revenue				\$ 14,651,000
Total Revenue including fees				\$ 1,687,875,402
TYBR Cost				1 0641
Cost Coverage				1 0700
Desired Cost Coverage				
Average Total RPW Adjusted Revenue Per Piece, W/O Fees			\$	0 233

# Periodicals: Regular Rates

Responses T  
 MH/USPS 34-2 (L)  
 Page 3 of 3

Rate Element	Type	Proposed Rates	Current Rates	Percent Change
ZONED ADVRTSG DELIVERY UNIT	POUNDS	0.122	0.169	-27.8%
ZONED ADVRTSG SCF	POUNDS	0.144	0.190	-24.2%
ZONED ADVRTSG ZONES 1&2	POUNDS	0.167	0.214	-22.0%
ZONED ADVRTSG ZONE 3	POUNDS	0.180	0.224	-19.6%
ZONED ADVRTSG ZONE 4	POUNDS	0.215	0.251	-14.3%
ZONED ADVRTSG ZONE 5	POUNDS	0.269	0.292	-7.9%
ZONED ADVRTSG ZONE 6	POUNDS	0.325	0.336	-3.3%
ZONED ADVRTSG ZONE 7	POUNDS	0.380	0.388	-2.1%
ZONED ADVRTSG ZONE 8	POUNDS	0.438	0.432	1.4%
NONADVERTISING	POUNDS	0.125	0.161	-22.2%
SCI OF AGRICULTURE DELIVERY OFFICE	POUNDS	0.092	0.127	-27.6%
SCI OF AGRICULTURE SCF	POUNDS	0.108	0.143	-24.5%
SCI OF AGRICULTURE ZONES 1&2	POUNDS	0.125	0.161	-22.4%
SCI OF AGRICULTURE ZONE 3	POUNDS	0.180	0.224	-19.6%
SCI OF AGRICULTURE ZONE 4	POUNDS	0.215	0.251	-14.3%
SCI OF AGRICULTURE ZONE 5	POUNDS	0.269	0.292	-7.9%
SCI OF AGRICULTURE ZONE 6	POUNDS	0.325	0.336	-3.3%
SCI OF AGRICULTURE ZONE 7	POUNDS	0.380	0.388	-2.1%
SCI OF AGRICULTURE ZONE 8	POUNDS	0.438	0.432	1.4%
SCI OF AGRICULTURE - NONADVERTISING	POUNDS	0.125	0.161	-22.2%
SCI OF AGI COMMNGLD NONSBSCRBR DELIVERY UNIT	POUNDS	0.122	0.169	-27.8%
SCI OF AGI COMMNGLD NONSBSCRBR SCF	POUNDS	0.144	0.190	-24.2%
SCI OF AGI COMMNGLD NONSBSCRBR ZONES 1&2	POUNDS	0.167	0.214	-22.0%
SCI OF AGI COMMNGLD NONSBSCRBR NONADVERTISING	POUNDS	0.125	0.161	-22.2%
BASIC NON-AUTOMATION	PIECES	0.282	0.240	17.5%
BASIC AUTOMATION LETTER	PIECES	0.201	0.194	3.6%
BASIC AUTOMATION FLAT	PIECES	0.240	0.209	14.8%
BASIC NON-AUTOMATION 3 DIGIT	PIECES	0.236	0.202	16.8%
BASIC AUTOMATION 3 DIGIT LETTER	PIECES	0.185	0.173	6.9%
BASIC AUTOMATION 3 DIGIT FLAT	PIECES	0.207	0.175	18.3%
BASIC NON-AUTOMATION 5 DIGIT	PIECES	0.233	0.202	15.3%
BASIC AUTOMATION 5 DIGIT LETTER	PIECES	0.181	0.173	4.6%
BASIC AUTOMATION 5 DIGIT FLAT	PIECES	0.205	0.175	17.1%
CARRIER ROUTE BASIC	PIECES	0.147	0.119	23.5%
CARRIER ROUTE HIGH DENSITY	PIECES	0.135	0.111	21.6%
CARRIER ROUTE SATURATION	PIECES	0.121	0.095	27.4%
PERCENTAGE EDITORIAL DISCOUNT	PIECES	-0.059	-0.057	3.5%
WKSHARING DISCNTDELIVERY OFFICE ENTRY	PIECES	-0.023	-0.021	9.5%
WKSHARING DISCNT SCF ENTRY	PIECES	-0.012	-0.011	9.1%
BASIC NONAUTOMATION	PIECES	0.282	0.240	17.5%
BASIC AUTOMATION LETTER	PIECES	0.201	0.194	3.6%
BASIC AUTOMATION FLAT	PIECES	0.240	0.209	14.8%
3 DIGIT NONAUTOMATION	PIECES	0.236	0.202	16.8%
3 DIGIT AUTOMATION LETTER	PIECES	0.185	0.173	6.9%
3 DIGIT AUTOMATION FLAT	PIECES	0.207	0.175	18.3%
5 DIGIT NONAUTOMATION	PIECES	0.233	0.202	15.3%
5-DIGIT AUTOMATION LETTER	PIECES	0.181	0.173	4.6%
5 DIGIT AUTOMATION FLAT	PIECES	0.205	0.175	17.1%
CARRIER ROUTE	PIECES	0.147	0.119	23.5%
HIGH DENSITY	PIECES	0.135	0.111	21.6%
SATURATION	PIECES	0.121	0.095	27.4%
SCI OF AGRICULTURE - Editorial Discount	PIECES	-0.059	-0.057	3.5%
SCI OF AGRICULTURE - Pc Disc Delivery Unit	PIECES	-0.023	-0.021	9.5%
SCI OF AGRICULTURE - Pc Disc SCF	PIECES	-0.012	-0.011	9.1%
		0.000		
SCI OF AGI COMMNGLD NONSBSCRBR - Basic Nonautomation	PIECES	0.282	0.240	17.5%
SCI OF AGI COMMNGLD NONSBSCRBR - Basic Automation Flat	PIECES	0.000	0.000	
SCI OF AGI COMMNGLD NONSBSCRBR - Editorial Discount	PIECES	-0.059	-0.057	3.5%
SCI OF AGI COMMNGLD NONSBSCRBR - Pc Disc SCF	PIECES	-0.012	-0.011	9.1%

Responses to  
MH/USPS-T3 (d)  
Page 1 of 3

IMPLICIT COST COVERAGE FOR EDITORIAL AND ADVERTISING MATTER

Delivery Unit	Test Year Volume	Zone Volume Percents	Redistributed	Redistributed	Proposed Rates	100% Advertising	100% Editorial
			Editorial Lbs.	Total Pounds			
SCF	9,960,014	0.66%	11,915,650	21,875,665	0.122	\$ 2,668,831	
Zones 1&2	457,295,412	30.14%	547,084,783	1,004,380,195	0.144	\$ 144,630,748	
Zone 3	269,903,539	17.79%	322,898,754	592,802,293	0.167	\$ 98,997,983	
Zone 4	145,102,052	9.56%	173,592,655	318,694,706	0.180	\$ 57,365,047	
Zone 5	220,078,772	14.51%	263,290,958	483,369,730	0.215	\$ 103,924,492	
Zone 6	220,894,738	14.56%	264,267,138	485,161,876	0.269	\$ 130,508,545	
Zone 7	78,534,156	5.18%	93,954,237	172,488,392	0.325	\$ 56,058,728	
Zone 8	61,296,260	4.04%	73,331,702	134,627,962	0.380	\$ 51,158,625	
Advertising Total	53,983,612	3.56%	64,583,226	118,566,838	0.438	\$ 51,932,275	
Editorial Pounds	1,517,048,553	100.00%				\$ 697,245,274	
Total Pounds	1,814,919,103		1,814,919,103		0.134	\$	\$ 445,150,879
	3,331,967,657			3,331,967,657		Deleted(Not needed)	\$ 445,150,879

	Pieces			Pc. Rate	Pc. Revenue	
BASIC NON-AUTOMATION	359,096,511			0.280	\$ 100,547,023	\$ 100,547,023
BASIC AUTOMATION LETTER	32,390,359			0.199	\$ 6,445,682	\$ 6,445,682
BASIC AUTOMATION FLAT	107,675,736			0.238	\$ 25,626,825	\$ 25,626,825
BASIC NON-AUTOMATION 3 DIGIT	999,671,188			0.234	\$ 233,923,058	\$ 233,923,058
BASIC AUTOMATION 3 DIGIT LETTER	12,071,964			0.183	\$ 2,209,169	\$ 2,209,169
BASIC AUTOMATION 3 DIGIT FLAT	575,067,526			0.205	\$ 117,888,843	\$ 117,888,843
BASIC NON-AUTOMATION 5 DIGIT	1,165,017,357			0.231	\$ 269,119,009	\$ 269,119,009
BASIC AUTOMATION 5 DIGIT LETTER	22,616,168			0.179	\$ 4,048,294	\$ 4,048,294
BASIC AUTOMATION 5 DIGIT FLAT	1,077,357,740			0.203	\$ 218,703,621	\$ 218,703,621
CARRIER ROUTE BASIC	2,785,226,710			0.145	\$ 403,857,873	\$ 403,857,873
CARRIER ROUTE HIGH DENSITY	19,901,228			0.133	\$ 2,646,863	\$ 2,646,863
CARRIER ROUTE SATURATION	16,478,658			0.119	\$ 1,960,960	\$ 1,960,960
WKSHARING DISCNTDELIVERY OFFICE ENTRY	39,442,931			-0.023	\$ (907,187)	\$ (907,187)
WKSHARING DISCNT SCF ENTRY	2,151,456,669			-0.012	\$ (25,817,480)	\$ (25,817,480)
PERCENTAGE EDITORIAL DISCOUNT @ 100%	7,172,571,146	100.00%		-0.059		\$ (423,181,698)
Total					\$ 1,360,252,554	\$ 937,070,856
Total Revenues Pieces & Pounds					\$ 2,057,497,828	\$ 1,382,221,735
RPW Adjustment Factor					100.0837%	100.0837%
Revenue * RPW Adjustment Factor					2,059,219,175	1,383,378,132
Fees					14,651,000	14,651,000
Revenue with Fees					2,073,870,175	1,398,029,132
TYBR Cost with Contingency					1,586,273,680	1,586,273,680
Cost Coverage					1,307,384,848	0.881329085

RATE DEVELOPMENT: TYBR VOLUMES, TYBR RATES, AND REVENUE

4893

Attachments  
Responses To  
MH/USPS T34-2 (d)  
Page 2 of 3

Rate Element	Type	TYBR Volume	Rate	Revenue
ZONED ADVRTSG DELIVERY UNIT	POUNDS	9 960 014	0.122	\$ 1,215,122
ZONED ADVRTSG SCF	POUNDS	457 293 337	0.144	\$ 65,850,240
ZONED ADVRTSG ZONES 1&2	POUNDS	269 890 184	0.167	\$ 45,071,661
ZONED ADVRTSG ZONE 3	POUNDS	144 962 455	0.180	\$ 26,075,242
ZONED ADVRTSG ZONE 4	POUNDS	219 942 082	0.215	\$ 47,287,548
ZONED ADVRTSG ZONE 5	POUNDS	220 818 387	0.269	\$ 59,400,146
ZONED ADVRTSG ZONE 6	POUNDS	78 526 726	0.325	\$ 25,521,186
ZONED ADVRTSG ZONE 7	POUNDS	61 288 769	0.380	\$ 23,289,732
ZONED ADVRTSG ZONE 8	POUNDS	53 977 529	0.438	\$ 23,642,158
NONADVERTISING	POUNDS	1 814 919 103	0.134	\$ 242,473,192
SCF OF AGRICULTURE DELIVERY OFFICE	POUNDS	21 317	0.092	\$ 1,961
SCF OF AGRICULTURE SCF	POUNDS	1,112 830	0.108	\$ 120,186
SCF OF AGRICULTURE ZONES 1&2	POUNDS	4 795 307	0.125	\$ 599,413
SCF OF AGRICULTURE ZONE 3	POUNDS	239 597	0.180	\$ 43,127
SCF OF AGRICULTURE ZONE 4	POUNDS	136 690	0.215	\$ 29,388
SCF OF AGRICULTURE ZONE 5	POUNDS	75 351	0.269	\$ 20,538
SCF OF AGRICULTURE ZONE 6	POUNDS	7 429	0.325	\$ 2,415
SCF OF AGRICULTURE ZONE 7	POUNDS	7 491	0.380	\$ 2,846
SCF OF AGRICULTURE ZONE 8	POUNDS	6 083	0.438	\$ 2,664
SCF OF AGRICULTURE - NONADVERTISING	POUNDS	1 142 415	0.1336	\$ 152,627
SCF OF AGI COMMNGLD NONSBSRBR DELIVERY UNIT	POUNDS	0	0.122	\$ -
SCF OF AGI COMMNGLD NONSBSRBR SCF	POUNDS	2 075	0.144	\$ 299
SCF OF AGI COMMNGLD NONSBSRBR ZONES 1&2	POUNDS	13 355	0.167	\$ 2,230
SCF OF AGI COMMNGLD NONSBSRBR NONADVERTISING	POUNDS	2 988	0.134	\$ 399
BASIC NON-AUTOMATION	PIECES	359 096 511	0.280	\$ 100,547,023
BASIC AUTOMATION LETTER	PIECES	32 390 359	0.199	\$ 6,445,582
BASIC AUTOMATION FLAT	PIECES	107 675 736	0.238	\$ 25,626,825
BASIC NON-AUTOMATION 3 DIGIT	PIECES	999 671 188	0.234	\$ 233,923,058
BASIC AUTOMATION 3 DIGIT LETTER	PIECES	12 071 964	0.183	\$ 2,209,169
BASIC AUTOMATION 3 DIGIT FLAT	PIECES	575 067 526	0.205	\$ 117,888,843
BASIC NON-AUTOMATION 5 DIGIT	PIECES	1 165 017 357	0.231	\$ 269,119,009
BASIC AUTOMATION 5 DIGIT LETTER	PIECES	22 516 168	0.179	\$ 4,048,294
BASIC AUTOMATION 5 DIGIT FLAT	PIECES	1 077 357 740	0.203	\$ 218,703,621
CARRIER ROUTE BASIC	PIECES	2 785 226 710	0.145	\$ 403,857,873
CARRIER ROUTE HIGH DENSITY	PIECES	19 901 228	0.133	\$ 2,646,863
CARRIER ROUTE SATURATION	PIECES	16 478 658	0.119	\$ 1,960,960
PERCENTAGE EDITORIAL DISCOUNT	PIECES	4 205 041 617	-0.059	\$ (248,097,455)
ADSHARING DISCNT DELIVERY OFFICE ENTRY	PIECES	39 442 931	-0.023	\$ (907,187)
ADSHARING DISCNT SCF ENTRY	PIECES	2 151 456 669	-0.012	\$ (25,817,480)
BASIC NONAUTOMATION	PIECES	0	0.280	\$ -
BASIC AUTOMATION LETTER	PIECES	0	0.199	\$ -
BASIC AUTOMATION FLAT	PIECES	0	0.238	\$ -
3 DIGIT NONAUTOMATION	PIECES	0	0.234	\$ -
3 DIGIT AUTOMATION LETTER	PIECES	0	0.183	\$ -
3 DIGIT AUTOMATION FLAT	PIECES	0	0.205	\$ -
5 DIGIT NONAUTOMATION	PIECES	0	0.231	\$ -
5 DIGIT AUTOMATION LETTER	PIECES	0	0.179	\$ -
5 DIGIT AUTOMATION FLAT	PIECES	0	0.203	\$ -
CARRIER ROUTE	PIECES	0	0.145	\$ -
HIGH DENSITY	PIECES	0	0.133	\$ -
SATURATION	PIECES	0	0.119	\$ -
SCF OF AGRICULTURE - Editorial Discount	PIECES	2 842 356	-0.059	\$ (167,699)
SCF OF AGRICULTURE - Pc Disc Delivery Unit	PIECES	227 597	-0.023	\$ (5,235)
SCF OF AGRICULTURE - Pc Disc SCF	PIECES	564 939	-0.012	\$ (7,139)
SCF OF AGI COMMNGLD NONSBSRBR - Basic Nonautomation	PIECES	32 413	0.280	\$ 9,076
SCF OF AGI COMMNGLD NONSBSRBR - Basic Automation Flat	PIECES	0	0.000	\$ -
SCF OF AGI COMMNGLD NONSBSRBR - Editorial Discount	PIECES	11 635	-0.059	\$ (686)
SCF OF AGI COMMNGLD NONSBSRBR - Pc Disc SCF	PIECES	0	-0.012	\$ -
Total Revenue				\$ 1,672,635,110
Total Regular Rate & SOA Pieces		7,172,571,146		
Total Pieces		7,172,571,146		
RPW Adjustment Factor				100.084%
RPW Adjusted Revenue				\$ 1,674,034,472
Fee Revenue				\$ 14,651,000
Total Revenue including fees				\$ 1,688,685,472
TYBR Cost				\$ 1,586,273,680
Cost Coverage				1.0646
Desired Cost Coverage				1.0700
Average Total RPW Adjusted Revenue Per Piece W/O Fees			\$	0.233

# Periodicals: Regular Rates

4894

Responses to  
 MH/USP-154  
 Page 3 of 3

Rate Element	Type	Proposed Rates	Current Rates	Percent Change
ZONED ADVRTSG DELIVERY UNIT	POUNDS	0.122	0.169	-27.8%
ZONED ADVRTSG SCF	POUNDS	0.144	0.190	-24.2%
ZONED ADVRTSG ZONES 1&2	POUNDS	0.167	0.214	-22.0%
ZONED ADVRTSG ZONE 3	POUNDS	0.180	0.224	-19.6%
ZONED ADVRTSG ZONE 4	POUNDS	0.215	0.251	-14.3%
ZONED ADVRTSG ZONE 5	POUNDS	0.269	0.292	-7.9%
ZONED ADVRTSG ZONE 6	POUNDS	0.325	0.336	-3.3%
ZONED ADVRTSG ZONE 7	POUNDS	0.380	0.388	-2.1%
ZONED ADVRTSG ZONE 8	POUNDS	0.438	0.432	1.4%
NONADVERTISING	POUNDS	0.134	0.161	-17.0%
SCI OF AGRICULTURE DELIVERY OFFICE	POUNDS	0.092	0.127	-27.6%
SCI OF AGRICULTURE SCF	POUNDS	0.108	0.143	-24.5%
SCI OF AGRICULTURE ZONES 1&2	POUNDS	0.125	0.161	-22.4%
SCI OF AGRICULTURE ZONE 3	POUNDS	0.180	0.224	-19.6%
SCI OF AGRICULTURE ZONE 4	POUNDS	0.215	0.251	-14.3%
SCI OF AGRICULTURE ZONE 5	POUNDS	0.269	0.292	-7.9%
SCI OF AGRICULTURE ZONE 6	POUNDS	0.325	0.336	-3.3%
SCI OF AGRICULTURE ZONE 7	POUNDS	0.380	0.388	-2.1%
SCI OF AGRICULTURE ZONE 8	POUNDS	0.438	0.432	1.4%
SCI OF AGRICULTURE - NONADVERTISING	POUNDS	0.134	0.161	-17.0%
SCI OF AGI COMMNGLD NONSBSCRBR DELIVERY UNIT	POUNDS	0.122	0.169	-27.8%
SCI OF AGI COMMNGLD NONSBSCRBR SCF	POUNDS	0.144	0.190	-24.2%
SCI OF AGI COMMNGLD NONSBSCRBR ZONES 1&2	POUNDS	0.167	0.214	-22.0%
SCI OF AGI COMMNGLD NONSBSCRBR NONADVERTISING	POUNDS	0.134	0.161	-17.0%
BASIC NON-AUTOMATION	PIECES	0.280	0.240	16.7%
BASIC AUTOMATION LETTER	PIECES	0.199	0.194	2.6%
BASIC AUTOMATION FLAT	PIECES	0.238	0.209	13.9%
BASIC NON-AUTOMATION 3 DIGIT	PIECES	0.234	0.202	15.8%
BASIC AUTOMATION 3 DIGIT LETTER	PIECES	0.183	0.173	5.8%
BASIC AUTOMATION 3 DIGIT FLAT	PIECES	0.205	0.175	17.1%
BASIC NON-AUTOMATION 5 DIGIT	PIECES	0.231	0.202	14.4%
BASIC AUTOMATION 5 DIGIT LETTER	PIECES	0.179	0.173	3.5%
BASIC AUTOMATION 5 DIGIT FLAT	PIECES	0.203	0.175	16.0%
CARRIER ROUTE BASIC	PIECES	0.145	0.119	21.8%
CARRIER ROUTE HIGH DENSITY	PIECES	0.133	0.111	19.8%
CARRIER ROUTE SATURATION	PIECES	0.119	0.095	25.3%
PERCENTAGE EDITORIAL DISCOUNT	PIECES	-0.059	-0.057	3.5%
WKSHARING DISCNT DELIVERY OFFICE ENTRY	PIECES	-0.023	-0.021	9.5%
WKSHARING DISCNT SCF ENTRY	PIECES	-0.012	-0.011	9.1%
BASIC NONAUTOMATION	PIECES	0.280	0.240	16.7%
BASIC AUTOMATION LETTER	PIECES	0.199	0.194	2.6%
BASIC AUTOMATION FLAT	PIECES	0.238	0.209	13.9%
3 DIGIT NONAUTOMATION	PIECES	0.234	0.202	15.8%
3 DIGIT AUTOMATION LETTER	PIECES	0.183	0.173	5.8%
3 DIGIT AUTOMATION FLAT	PIECES	0.205	0.175	17.1%
5 DIGIT NONAUTOMATION	PIECES	0.231	0.202	14.4%
5-DIGIT AUTOMATION LETTER	PIECES	0.179	0.173	3.5%
5 DIGIT AUTOMATION FLAT	PIECES	0.203	0.175	16.0%
CARRIER ROUTE	PIECES	0.145	0.119	21.8%
HIGH DENSITY	PIECES	0.133	0.111	19.8%
SATURATION	PIECES	0.119	0.095	25.3%
SCI OF AGRICULTURE - Editorial Discount	PIECES	-0.059	-0.057	3.5%
SCI OF AGRICULTURE - Pc Disc Delivery Unit	PIECES	-0.023	-0.021	9.5%
SCI OF AGRICULTURE - Pc Disc SCF	PIECES	-0.012	-0.011	9.1%
		0.000		
SCI OF AGI COMMNGLD NONSBSCRBR - Basic Nonautomation	PIECES	0.280	0.240	16.7%
SCI OF AGI COMMNGLD NONSBSCRBR - Basic Automation Flat	PIECES	0.000	0.000	
SCI OF AGI COMMNGLD NONSBSCRBR - Editorial Discount	PIECES	-0.059	-0.057	3.5%
SCI OF AGI COMMNGLD NONSBSCRBR - Pc Disc SCF	PIECES	-0.012	-0.011	9.1%

Attachment To  
Responses To  
MTR, USF, T34-2(e)  
Page 1 of 2

REGULAR RATE TYAR : BILLING DETERMINANT VOLUMES, RATES, AND REVENUE				
Rate Element	Type	Billing Det	Rates	Revenue
ZONED ADVRTSG DELIVERY UNIT	POUNDS	9 624 303	0 122	\$ 1 210 887
ZONED ADVRTSG SCF	POUNDS	455 699 802	0 144	\$ 65 620 746
ZONED ADVRTSG ZONES 1&2	POUNDS	268 549 589	0 167	\$ 44 914 581
ZONED ADVRTSG ZONE 3	POUNDS	144 357 594	0 180	\$ 25 984 367
ZONED ADVRTSG ZONE 4	POUNDS	218 178 561	0 215	\$ 47 122 746
ZONED ADVRTSG ZONE 5	POUNDS	110 048 812	0 269	\$ 59 193 130
ZONED ADVRTSG ZONE 6	POUNDS	78 253 057	0 325	\$ 25 432 242
ZONED ADVRTSG ZONE 7	POUNDS	61 075 171	0 380	\$ 23 208 555
ZONED ADVRTSG ZONE 8	POUNDS	50 785 412	0 438	\$ 23 559 753
NONADVERTISING	POUNDS	1 806 593 924	0 134	\$ 241 628 148
SCI OF AGRICULTURE DELIVERY OFFICE	POUNDS	21 242	0 082	\$ 1 544
SCI OF AGRICULTURE SCF	POUNDS	1 102 812	0 108	\$ 119 767
SCI OF AGRICULTURE ZONES 1&2	POUNDS	4 778 595	0 123	\$ 598 519
SCI OF AGRICULTURE ZONE 3	POUNDS	238 762	0 180	\$ 42 977
SCI OF AGRICULTURE ZONE 4	POUNDS	136 214	0 215	\$ 29 285
SCI OF AGRICULTURE ZONE 5	POUNDS	76 085	0 269	\$ 20 467
SCI OF AGRICULTURE ZONE 6	POUNDS	7 403	0 325	\$ 2 406
SCI OF AGRICULTURE ZONE 7	POUNDS	7 465	0 380	\$ 2 837
SCI OF AGRICULTURE ZONE 8	POUNDS	6 061	0 438	\$ 2 655
SCI OF AGRICULTURE - NONADVERTISING	POUNDS	1 138 434	0 1336	\$ 152 095
SCI OF AGI COMMNGLD NONSBSRBR DELIVERY UNIT	POUNDS	0	0 122	\$ -
SCI OF AGI COMMNGLD NONSBSRBR SCF	POUNDS	2 068	0 144	\$ 298
SCI OF AGI COMMNGLD NONSBSRBR ZONES 1&2	POUNDS	13 308	0 167	\$ 2 222
SCI OF AGI COMMNGLD NONSBSRBR NONADVERTISING	POUNDS	2 578	0 1336	\$ 398
BASIC NON-AUTOMATION	PIECES	357 845 023	0 280	\$ 100 196 606
BASIC AUTOMATION LETTER	PIECES	32 277 476	0 199	\$ 6 423 218
BASIC AUTOMATION FLAT	PIECES	107 300 475	0 238	\$ 25 537 513
BASIC NON-AUTOMATION 3 DIGIT	PIECES	996 187 232	0 234	\$ 233 107 812
BASIC AUTOMATION 3 DIGIT LETTER	PIECES	12 029 892	0 183	\$ 2 201 470
BASIC AUTOMATION 3 DIGIT FLAT	PIECES	573 063 357	0 205	\$ 117 477 988
BASIC NON-AUTOMATION 5 DIGIT	PIECES	1 160 957 152	0 231	\$ 268 181 102
BASIC AUTOMATION 5 DIGIT LETTER	PIECES	22 537 348	0 179	\$ 4 034 185
BASIC AUTOMATION 5 DIGIT FLAT	PIECES	1 073 603 038	0 203	\$ 217 941 417
CARRIER ROUTE BASIC	PIECES	2 775 519 910	0 145	\$ 402 450 387
CARRIER ROUTE HIGH DENSITY	PIECES	19 831 876	0 133	\$ 2 637 639
CARRIER ROUTE SATURATION	PIECES	16 421 229	0 119	\$ 1 954 126
PERCENTAGE EDITORIAL DISCOUNT	PIECES	4 190 386 616	-0 059	\$ (247 232 810)
WKSHARING DISCNT DELIVERY OFFICE ENTRY	PIECES	39 305 488	-0 023	\$ (904 026)
WKSHARING DISCNT SCF ENTRY	PIECES	2 143 958 521	-0 012	\$ (25 727 503)
BASIC NONAUTOMATION	PIECES	0	0 280	\$ -
BASIC AUTOMATION LETTER	PIECES	0	0 199	\$ -
BASIC AUTOMATION FLAT	PIECES	0	0 238	\$ -
3 DIGIT NONAUTOMATION	PIECES	0	0 234	\$ -
3 DIGIT AUTOMATION LETTER	PIECES	0	0 183	\$ -
3 DIGIT AUTOMATION FLAT	PIECES	0	0 205	\$ -
5 DIGIT NONAUTOMATION	PIECES	0	0 231	\$ -
5 DIGIT AUTOMATION LETTER	PIECES	0	0 179	\$ -
5 DIGIT AUTOMATION FLAT	PIECES	0	0 203	\$ -
CARRIER ROUTE	PIECES	0	0 145	\$ -
HIGH DENSITY	PIECES	0	0 133	\$ -
SATURATION	PIECES	0	0 119	\$ -
SCI OF AGRICULTURE - Editorial Discount	PIECES	2 832 450	-0 059	\$ (167 115)
SCI OF AGRICULTURE - Pc Disc Delivery Unit	PIECES	226 804	-0 023	\$ (5 216)
SCI OF AGRICULTURE - Pc Disc SCF	PIECES	592 865	-0 012	\$ (7 114)
SCI OF AGI COMMNGLD NONSBSRBR - Basic Nonautomation	PIECES	32 300	0 280	\$ 9 044
SCI OF AGI COMMNGLD NONSBSRBR - Basic Automation Flat	PIECES	0	0 199	\$ -
SCI OF AGI COMMNGLD NONSBSRBR - Editorial Discount	PIECES	11 595	-0 059	\$ (684)
SCI OF AGI COMMNGLD NONSBSRBR - Pc Disc SCF	PIECES	0	-0 012	\$ -
Total Revenue				\$ 1 666 805 591
Piece Revenue				\$ 1 108 108 039
Total Regular Rate & SOA Pieces		7 147 574 000		
Piece Revenue per piece		\$ 0 155		
Total Pieces		7 147 574 000		
RPW Adjustment Factor (WP RR-D Line 15)				100 084%
RPW Adjusted Revenue				\$ 1 668 201 077
Fee Revenue				\$ 14 598 000
Total Revenue including fees				\$ 1 682 799 077
TYAR Cost				\$ 1 578 995 620
Cost Coverage				1 06574
Desired Cost Coverage				1 0700
Average Total RPW Adjusted Revenue Per Piece (WO Fees) (RPW Adjusted Revenue/Total Pieces)			\$	0 233

Responses T  
M/R (USPS)  
Page 2 of 2

TYBR BILLING DETERMINANTS - REGULAR RATE PERIODICALS			
	Volume	Rate	Revenue
	(1)	(2)	(3)
Delivery Unit	9,960,014	0.165	1,585,242
SCF	457,293,337	0.190	86,885,734
Zones 1&2	269,650,164	0.214	57,756,499
Zone 3	144,562,455	0.224	32,449,150
Zone 4	219,942,052	0.251	55,205,463
Zone 5	220,818,387	0.292	64,478,669
Zone 6	78,525,726	0.336	26,364,980
Zone 7	61,288,769	0.388	23,780,042
Zone 8	53,677,529	0.432	23,118,293
Nonadvertising - including SOA & Commingled	814,919,153	0.161	292,201,976
	<b>3,331,478,586</b>		
SCI OF AGRICULTURE DELIVERY OFFICE	21,317	0.127	2,707
SCI OF AGRICULTURE SCF	1,112,830	0.143	159,135
SCI OF AGRICULTURE ZONES 1&2	4,795,307	0.161	772,044
SCI OF AGRICULTURE ZONE 3	239,597	0.224	53,670
SCI OF AGRICULTURE ZONE 4	136,690	0.251	34,309
SCI OF AGRICULTURE ZONE 5	76,351	0.292	22,295
SCI OF AGRICULTURE ZONE 6	7,429	0.336	2,496
SCI OF AGRICULTURE ZONE 7	7,491	0.388	2,906
SCI OF AGRICULTURE ZONE 8	6,063	0.432	2,628
	<b>6,403,095</b>		
SOA COMMINGLED NONSBSRBR DELIVERY UNIT	0	0.165	0
SOA COMMINGLED NONSBSRBR SCF	2,075	0.190	394
SOA COMMINGLED NONSBSRBR ZONES 1&2	13,355	0.214	2,858
	<b>15,430</b>		
BASIC NON-AUTOMATION	583,823,728	0.240	236,117,695
BASIC AUTOMATION LETTER	32,388,539	0.194	6,283,377
BASIC AUTOMATION FLAT	368,786,431	0.206	77,076,364
3/5 NON-AUTOMATION	1,537,315,793	0.202	310,537,790
3/5 AUTOMATION LETTER	34,687,605	0.173	6,000,956
3/5 AUTOMATION FLAT	1,391,136,007	0.175	243,448,801
CARRIER ROUTE BASIC	2,781,919,495	0.119	331,046,420
CARRIER ROUTE HIGH DENSITY	19,858,416	0.111	2,208,724
CARRIER ROUTE SATURATION	16,478,658	0.095	1,565,473
PERCENTAGE EDITORIAL DISCOUNT	4,205,041,617	(0.057)	(239,667,372)
WORKSHARING DISCNT DELIVERY OFFICE ENTRY	39,442,931	(0.021)	(828,302)
WORKSHARING DISCNT SCF ENTRY	2,151,456,669	(0.011)	(23,666,023)
	<b>7,166,434,673</b>		
SCI OF AGRICULTURE - Basic Nonautomation	725,942	0.240	176,626
SCI OF AGRICULTURE - Basic Automation Letter	1,820	0.194	353
SCI OF AGRICULTURE - Basic Automation Flat	33,702	0.209	7,044
SCI OF AGRICULTURE - 3/5 Nonautomation	1,677,180	0.202	379,190
SCI OF AGRICULTURE - 3/5 Automation Letter	526	0.173	91
SCI OF AGRICULTURE - 3/5 Automation Flat	144,861	0.175	25,351
SCI OF AGRICULTURE - Carrier Route	3,307,215	0.119	393,559
SCI OF AGRICULTURE - High Density	2,812	0.111	312
SCI OF AGRICULTURE - Saturation	0	0.095	0
SCI OF AGRICULTURE - Editorial Discount	2,842,356	(0.057)	(162,014)
SCI OF AGRICULTURE - Pc Disc Delivery Unit	227,597	(0.021)	(4,780)
SCI OF AGRICULTURE - Pc Disc SCF	594,939	(0.011)	(6,544)
	<b>6,104,060</b>		
SCI OF AGI COMMINGLED NONSBSRBR - Basic Nonautomation	32,413	0.240	7,779
SCI OF AGI COMMINGLED NONSBSRBR - Basic Automation Flat	0	0.209	0
SOA COMMINGLED NONSBSRBR EDITORIAL DISCOUNT	11,635	-0.057	(663)
Pounds	3,337,897,111		665,199,830
Pieces	7,172,571,146	\$ 0.133	950,922,206
Total Revenue			1,616,122,036
RPW Adjustment Factor			1.00
RPW Adjusted Revenue			1,617,474,118
Fees			14,651,000
Revenue Including Fees			1,632,125,118
TYBR Cost including contingency			1,586,273,680
Cost Coverage			1.0289
Average Revenue per piece w/o fees			0.225
(1) Base Year Volume multiplied by TYBR Scaling Factor from Rate Design Input Worksheet RR-D			
(2) Current Phase 5 Rates			
(3) Rates multiplied by Volume			

Periodicals: Regular Rates

4897

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 Page 1 of 1  
 34-2 (f)

PERIODICALS DEVELOPMENT COMPARISON OF CURRENT PROPOSED RATES				
Rate Element	Type	Current Rates	Proposed Rates	Percent Change
ZONED ADVRTSG DELIVERY UNIT	POUNDS	0.169	0.122	-27.8%
ZONED ADVRTSG SCF	POUNDS	0.190	0.144	-24.2%
ZONED ADVRTSG ZONES 1&2	POUNDS	0.214	0.167	-22.0%
ZONED ADVRTSG ZONE 3	POUNDS	0.224	0.180	-19.6%
ZONED ADVRTSG ZONE 4	POUNDS	0.251	0.215	-14.3%
ZONED ADVRTSG ZONE 5	POUNDS	0.292	0.269	-7.9%
ZONED ADVRTSG ZONE 6	POUNDS	0.336	0.325	-3.3%
ZONED ADVRTSG ZONE 7	POUNDS	0.388	0.380	-2.1%
ZONED ADVRTSG ZONE 8	POUNDS	0.432	0.438	1.4%
NONADVERTISING	POUNDS	0.161	0.134	-17.0%
SCI. OF AGRICULTURE DELIVERY OFFICE	POUNDS	0.127	0.092	-27.6%
SCI. OF AGRICULTURE SCF	POUNDS	0.143	0.108	-24.5%
SCI. OF AGRICULTURE ZONES 1&2	POUNDS	0.161	0.125	-22.4%
SCI. OF AGRICULTURE ZONE 3	POUNDS	0.224	0.180	-19.6%
SCI. OF AGRICULTURE ZONE 4	POUNDS	0.251	0.215	-14.3%
SCI. OF AGRICULTURE ZONE 5	POUNDS	0.292	0.269	-7.9%
SCI. OF AGRICULTURE ZONE 6	POUNDS	0.336	0.325	-3.3%
SCI. OF AGRICULTURE ZONE 7	POUNDS	0.388	0.380	-2.1%
SCI. OF AGRICULTURE ZONE 8	POUNDS	0.432	0.438	1.4%
SCI. OF AGRICULTURE - NONADVERTISING	POUNDS	0.161	0.134	-17.0%
SCI OF AGI. COMMNGLD NONSBSCRBR DELIVERY UNIT	POUNDS	0.169	0.122	-27.8%
SCI OF AGI. COMMNGLD NONSBSCRBR SCF	POUNDS	0.190	0.144	-24.2%
SCI OF AGI. COMMNGLD NONSBSCRBR ZONES 1&2	POUNDS	0.214	0.167	-22.0%
SCI OF AGI. COMMNGLD NONSBSCRBR NONADVERTISING	POUNDS	0.161	0.134	-17.0%
BASIC NON-AUTOMATION	PIECES	0.240	0.280	16.7%
BASIC AUTOMATION LETTER	PIECES	0.194	0.199	2.6%
BASIC AUTOMATION FLAT	PIECES	0.209	0.238	13.9%
BASIC NON-AUTOMATION 3 DIGIT	PIECES	0.202	0.234	15.8%
BASIC AUTOMATION 3 DIGIT LETTER	PIECES	0.173	0.183	5.8%
BASIC AUTOMATION 3 DIGIT FLAT	PIECES	0.175	0.205	17.1%
BASIC NON-AUTOMATION 5 DIGIT	PIECES	0.202	0.231	14.4%
BASIC AUTOMATION 5 DIGIT LETTER	PIECES	0.173	0.179	3.5%
BASIC AUTOMATION 5 DIGIT FLAT	PIECES	0.175	0.203	16.0%
CARRIER ROUTE BASIC	PIECES	0.119	0.145	21.8%
CARRIER ROUTE HIGH DENSITY	PIECES	0.111	0.133	19.8%
CARRIER ROUTE SATURATION	PIECES	0.095	0.119	25.3%
PERCENTAGE EDITORIAL DISCOUNT	PIECES	-0.057	-0.059	3.5%
WKSHARING DISCNT DELIVERY OFFICE ENTRY	PIECES	-0.021	-0.023	9.5%
WKSHARING DISCNT SCF ENTRY	PIECES	-0.011	-0.012	9.1%
BASIC NONAUTOMATION	PIECES	0.240	0.280	16.7%
BASIC AUTOMATION LETTER	PIECES	0.194	0.199	2.6%
BASIC AUTOMATION FLAT	PIECES	0.209	0.238	13.9%
3 DIGIT NONAUTOMATION	PIECES	0.202	0.234	15.8%
3 DIGIT AUTOMATION LETTER	PIECES	0.173	0.183	5.8%
3 DIGIT AUTOMATION FLAT	PIECES	0.175	0.205	17.1%
5 DIGIT NONAUTOMATION	PIECES	0.202	0.231	14.4%
5-DIGIT AUTOMATION LETTER	PIECES	0.173	0.179	3.5%
5 DIGIT AUTOMATION FLAT	PIECES	0.175	0.203	16.0%
CARRIER ROUTE	PIECES	0.119	0.145	21.8%
HIGH DENSITY	PIECES	0.111	0.133	19.8%
SATURATION	PIECES	0.095	0.119	25.3%
SCI. OF AGRICULTURE - Editorial Discount	PIECES	-0.057	-0.059	3.5%
SCI. OF AGRICULTURE - Pc. Disc. Delivery Unit	PIECES	-0.021	-0.023	9.5%
SCI. OF AGRICULTURE - Pc. Disc. SCF	PIECES	-0.011	-0.012	9.1%
SCI OF AGI. COMMNGLD NONSBSCRBR - Basic Nonautomation	PIECES	0.240	0.280	16.7%
SCI OF AGI. COMMNGLD NONSBSCRBR - Basic Automation Flat	PIECES	0.000	0.000	
SCI OF AGI. COMMNGLD NONSBSCRBR - Editorial Discount	PIECES	-0.057	-0.059	3.5%
SCI OF AGI. COMMNGLD NONSBSCRBR - Pc. Disc. SCF	PIECES	-0.011	-0.012	9.1%

9 out of 12.  
 1 ✓  
 2 ✓  
 3 ✓  
 4 ✓  
 5 ✓  
 6 ✓  
 7 ✓  
 8 ✓  
 9 ✓  
 10 ✓  
 11 ✓  
 12 ✓

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE 4898  
TO INTERROGATORIES OF THE MCGRAW HILL COMPANIES

MH/USPS-T34-3. With reference to your proposal (p. 13, lines 18-19) that contrary to past practice (see R80-1 Op. & Rec. Dec. 888, 894-95), the editorial pound rate should be calculated independently of any of the zone rates:

- (a) What if any specific constraints do you envision on future increases in the editorial pound charge? Please explain your answer fully.
- (b) Do you envision that the Postal Service may in the future propose an increase in the editorial pound charge that would result in an editorial cost coverage exceeding 100 percent? Do you envision that the maximum level of the editorial pound charge would be subject to open-ended litigation in each future rate case?

RESPONSE

- a) I have no way of forecasting future increases in editorial pound charges.
- b) Once again, I cannot forecast the future increase in editorial pound charge.

The maximum level of the editorial pound charge, like any other rate would be subject to 'open-ended' litigation in future rate cases.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE 4899  
TO INTERROGATORIES OF THE MCGRAW HILL COMPANIES

MH/USPS-T34-4. With reference to your testimony (p. 6, lines 14-15) that under your proposal, "all Periodicals subclasses will have 3-digit and 5-digit piece rates for both letters and flats for automation compatible mail," please explain the effect of your proposal on non-automation-compatible Periodicals mail.

RESPONSE

Non-automation compatible mail will also have 3-digit and 5-digit rates, just like the automation compatible mail. The only difference is that non-automation compatible rates do not distinguish between letters and flats.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF THE MCGRAW HILL COMPANIES

MU/USPS-T34-5. With reference to your testimony (p. 10, lines 13-15) that the "letter categories were not affected by this shift [to the proposed new 3-digit and 5-digit categories], and retained the same level of volume as the base year," please explain the effect of your proposal on letter-sized Periodicals mail.

RESPONSE

The mail characteristic study that was used to determine the estimated volume for the proposed new 3-digit and 5-digit categories was exclusively done for flat-shaped pieces. The letter volumes for the 3-digit and 5-digit categories were derived based on the distribution of flats for these sortation levels. The letter-sized Periodicals mail in the current proposal will also receive sortation discounts for both 3-digit and 5-digit presort levels.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF THE MCGRAW HILL COMPANIES

MH/USP-T34-6. In view of the ongoing deployment of the FSM 1000, when will the Postal Service extend the automation discounts to tabloid-sized periodicals, and/or periodicals weighing more than one pound?

RESPONSE

Because barcode readers have not yet been approved for deployment on the FSM 1000, it is premature to speculate on when the Postal Service might extend automation discounts to tabloid-sized periodicals and/or periodicals weighing more than one pound. Please see witness Moden's response to MPA/USPS-T4-10( b ) and ( c ) for the deployment status of barcode readers on FSM 1000s.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION (NNA)

NNA/USPS T34-1

Please refer to your testimony on Table III. Please confirm that the pound rate in within-county "zoned advertising delivery unit" proposed rates is intended to apply only to advertising weight. If you do not confirm, please explain.

RESPONSE

Not Confirmed. The within-county pound rate label "zoned advertising delivery unit" is incorrect. The correct label should be "DELIVERY UNIT". A distinction between advertising and editorial content is not made in the Within County subclass. An erratum will be filed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION (NNA)

NNA/USPS T34-2

Please consult the Domestic Mail Manual § 3.0 with reference to Exceptional Dispatch.

- a. Please explain in detail all differences between periodicals mail prepared to qualify for delivery unit discounts on the within-county and regular periodicals rate schedule and mail prepared and sorted for exceptional dispatch.
- b. Does your answer depend upon the degree of sortation provided by the mailer in each instance? If so, please explain.
- c. Please explain in particular any circumstances of which you are aware in which a mailer authorized to drop ship for exceptional dispatch would not receive delivery unit discounts.

RESPONSE

- a. With reference to Exceptional Dispatch, I assume that you are referring to DMM D210.2 and D210.3.

Mail prepared for destination delivery unit rates must be sorted to a carrier route package that is placed in a carrier route or 5-digit carrier routes sack or tray under DMM M200, or palletized under DMM M045. Such carrier route sorted pieces must be entered at the facility where the carrier cases mail for the carrier route serving the delivery address on the mailpiece. Plant - Verified drop shipment (PVDS) mailings must be verified at an original or additional entry office for subsequent mailer entry at one or more destination delivery units. Non-PVDS mail must be entered at a DDU at which the publisher has been authorized original or additional entry.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION (NNA)

NNA/USPS-T34-2(a) Continued, Page 2 of 3

It is my understanding that, other than the basic presort requirements in DMM 200, there are no specific presort requirements in the DMM for exceptional dispatch. As described in Domestic Mail Manual (DMM) D210.3.1 and D210.3.2, exceptional dispatch authorization allows a publisher, for service reasons, to deliver copies of a time-sensitive Periodicals publication, at the publisher's own expense and risk from the post office of original or additional entry to other post offices. It is intended for use with short-haul local distributions. An exceptional dispatch may be authorized for various types of postal facilities and is not limited to destination delivery units. *Postage for exceptional dispatch mail is calculated from and paid at the original or additional entry office from which the exceptional dispatch was authorized.* Exceptional dispatch mail is considered to be entered at the original or additional entry office from which the exceptional dispatch was authorized. Exceptional dispatch may not be used for publications authorized to be mailed under the Centralized Postal Payment (CPP) System or under the PVDS postage payment system. For all these reasons, Business Mail Acceptance has determined that matter deposited at a destination delivery unit under exceptional dispatch is not eligible for the destination entry rates.

b. See response to part a.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION (NNA)

4905

NNA/USPS-T34-2, Page 3 of 3

- c. As indicated in part a, mailings deposited under exceptional dispatch are never eligible for the DDU discount. However, mailers who are using exceptional dispatch could change their operations to receive DDU rates by establishing additional entry at the destination office, or using PVDS, and meeting the other requirements presented in part a.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION (NNA)

NNA/USPS T34-3

3. Please list any and all reasons why a periodical granted exceptional dispatch privileges under DMM § 3.0 would not qualify for delivery office discounts.

RESPONSE

See my response to 2a.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION (NNA)

NNA/USPS T34-4

Please describe any changes that the Postal Service has publicly discussed since June 1, 1997, regarding sortation, packaging or sacking of Periodicals mail to Sectional Center Facilities and provide copies of any memoranda, reports or press announcements regarding this intended change. If you do not confirm, please explain. Please describe any effects such a change, if any, would have upon the test year costs or rates proposed in this case.

RESPONSE

The Postal Service has published notice of a proposed rule in the Federal Register (Vol. 62, No. 178/ Monday September 15, 1997, pages 48192-3) which would add the SCF sack level to the presort requirements for Periodicals mailings of nonletter size pieces. A copy of this proposed rule is attached. This change would not affect the proposed rates and costs in the test year, as explained in Witness Seckar's response to ABP/USPS-T34-7[b], filed September 3, 1997.

meetings should be directed to Elizabeth Allen, Federal Aviation Administration, Office of Rulemaking (ARM-100), 800 Independence Avenue, SW, Washington, DC 20591, telephone (202) 267-8199; fax (202) 267-5075.

Questions concerning the NPRM on Airport Security (Parts 107 and 139) should be directed to Penny Anderson, Office of Civil Aviation Security Policy and Planning, Civil Aviation Security Division (ACP-100), Federal Aviation Administration, 800 Independence Ave., SW, Washington, DC 20591; telephone (202) 267-3413.

Questions concerning the NPRM on Aircraft Operator Security (Part 108) should be directed to Rhonda Hatmaker, Office of Civil Aviation Security Policy and Planning Civil Aviation Security Division (ACP-100), Federal Aviation Administration, 800 Independence Ave., SW, Washington, DC 20591; telephone (202) 267-3413.

#### SUPPLEMENTARY INFORMATION:

##### Participation at the Public Meetings on the NPRMs

Requests from persons who wish to present oral statements at the public meetings on the Airport Security and/or the aircraft Operator Security proposals should be received by the FAA no later than October 9, 1997, for the Washington, DC meeting and no later than October 16, 1997, for the Fort Worth, TX meeting. Such requests should be submitted to Elizabeth Allen as listed in the section titled FOR FURTHER INFORMATION CONTACT and should include a written summary of oral remarks to be presented, the date of the meeting the requester wishes to address, and an estimate of time needed for the presentation. Requests received after the dates specified above will be scheduled if there is time available during the meeting; however, the names of those individuals may not appear on the written agenda. The FAA will prepare an agenda of speakers that will be available at the meetings. To accommodate as many speakers as possible, the amount of time allocated to each speaker may be less than the amount of time requested. Those persons desiring to have available audiovisual equipment should notify the FAA when requesting to be placed on the agenda.

##### Background

The FAA will conduct two public meetings on the recently published Airport Security (Parts 107 and 139) and Aircraft Operator Security (Part 108) proposed rules.

The notices of proposed rulemaking were published in the Federal Register

on August 1, 1997 [62 FR 41760 (Parts 107 and 139), and 62 FR 41730 (Part 108)]. The NPRMs proposed to update the overall regulatory structure for airport and air carrier security.

The closing date for comments on these proposals is December 1, 1997. The FAA is planning these meetings to give the public an additional opportunity to comment on these proposed rules.

Persons interested in obtaining a copy of the Airport Security (Parts 107 and 139) and/or the Aircraft Operator Security (Part 108) proposed rules should contact Elizabeth Allen at the address or telephone number provided in FOR FURTHER INFORMATION CONTACT.

An electronic copy of these documents may be downloaded using a modem and suitable communications software from the FAA regulations section of the Fedworld electronic bulletin board service (telephone: (703) 321-3339) or the Federal Register's electronic bulletin board service (telephone: (202) 512-1661).

Internet users may reach the FAA's webpage at <http://www.faa.gov> or the Federal Register's webpage at [http://www.access.gpo.gov/su\\_docs](http://www.access.gpo.gov/su_docs) to access recently published rulemaking documents.

##### Public Meeting Procedures

The following procedures are established to facilitate the public meetings on the NPRMs:

1. There will be no admission fee or other charge to attend or to participate in the public meetings. The meetings will be open to all persons who have requested in advance to present statements, or who register on the day of the meeting (between 8:30 a.m. and 9:00 a.m.) subject to availability of space in the meeting room.

2. The public meetings will adjourn after scheduled speakers have completed their statements.

3. The FAA will try to accommodate all speakers; therefore, it may be necessary to limit the time available for an individual or group.

4. Participants should address their comments to the panel. No individual will be subject to cross-examination by any other participant.

5. Sign and oral interpretation can be made available at the meetings, as well as an assistive listening device, if requested 10 calendar days before the meetings.

6. Representatives of the FAA will conduct the public meetings. A panel of FAA personnel involved in this issue will be present.

7. The meetings will be recorded by a court reporter. A transcript of the

meetings and any material accepted by the panel during the meetings will be included in the public dockets (Docket No. 28979 (Parts 107 and 139), and Docket No. 28978 (Part 108)). Any person who is interested in purchasing a copy of the transcript should contact the court reporter directly. This information will be available at the meetings.

8. The FAA will review and consider all material presented by participants at the public meetings. Position papers or material presenting views or information related to the proposed NPRMs may be accepted at the discretion of the presiding officer and subsequently placed in the public docket. The FAA requests that persons participating in the meetings provide 10 copies of all materials to be presented for distribution to the panel members; others copies may be provided to the audience at the discretion of the participant.

9. Statements made by members of the public meetings panel are intended to facilitate discussion of the issues or to clarify issues. Because the meetings concerning the Airport Security (Parts 107 and 139) and Aircraft Operator Security (Part 108) are being held during the comment period, final decisions concerning issues that the public may raise cannot be made at the meetings. Federal Aviation Administration officials may, however, ask questions to clarify statements made by the public and to ensure a complete and accurate record. Comments made at these public meetings will be considered by the FAA when deliberations begin concerning whether to adopt any or all of the proposed rules.

10. The meetings are designed to solicit public views and more complete information on the proposed rule. Therefore, the meetings will be conducted in an informal and nonadversarial manner.

(49 U.S.C. 106(g), 5103, 40113, 40119, 44701-44702, 44706, 44901-44905, 44907, 44913-44914, 44932, 44935-44936, 46105).

Issued in Washington, DC on September 10, 1997.

Ida Klepper,

Acting Director, Office of Rulemaking.

[FR Doc. 97-24421 Filed 9-12-97; 8:45 am]

BILLING CODE 4910-12-M

#### POSTAL SERVICE

39 CFR Part 111

Presort Requirements for Periodicals Mail

AGENCY: Postal Service.

**ACTION:** Proposed Rule.

**SUMMARY:** The Postal Service plans to add an SCF sack level to the presort requirements for Periodicals automation nonautomation mailings of letter-size pieces. An SCF package level will not be added. Only 5-digit and 3-digit packages will be permitted in the SCF sack. SCF sacks will be prepared after 5-digit and 3-digit sacks, and prior to preparing ADC sacks.

**DATES:** Comments must be received on or before October 15, 1997.

**ADDRESSES:** Mail or deliver written comments to the Manager, Mail Preparation and Standards, USPS Headquarters, 475 L'Enfant Plaza SW, Room 6800, Washington, DC 20260-2405. Copies of all written comments will be available at the above address for inspection and photocopying between 9 a.m. and 4 p.m., Monday through Friday.

**FOR FURTHER INFORMATION CONTACT:** Lynn M. Martin, (202) 268-6351.

**SUPPLEMENTARY INFORMATION:** On July 1, 1996, the Postal Service eliminated the optional preparation of SCF packages and sacks as part of the streamlining of presort requirements under Classification Reform. Some Periodicals mailers have indicated that they believe the inability to sack mail to the SCF level has affected the service of their publications. Many mailers of periodicals publications have been preparing 3-digit sacks that contain fewer than the required 24 pieces, to ensure good levels of service. This results in increased sack usage by mailers and increased sack handlings by the Postal Service. Reinstating SCF sacks would allow Periodicals mailers to direct sacks to the applicable processing plant for service reasons without having to prepare "skin" 3-digit sacks, and also provide the opportunity for the Postal Service to receive mail sorted to a finer level than an area distribution center (ADC) sack.

Accordingly, the Postal Service is proposing reinstate, for only non-letter-size Periodicals publications, an SCF sack that would be prepared after all required 5-digit and 3-digit sacks, and prior to preparing required ADC sacks. It is proposed that preparation of the SCF sack would be optional for the period beginning on the date the final rule regarding this notice is published and ending on the effective date of the preparation rules that are placed in effect as a result of the Docket No. R97-1 rate case proceedings. Upon implementation of the preparation rules from the rate case proceedings,

it is proposed that preparation of the SCF sack would become mandatory.

Preparation of an SCF package will not be permitted under this planned rule change. An SCF package would increase piece distribution for the Postal Service. Accordingly, SCF sacks would be permitted to contain only 5-digit and 3-digit packages.

For nonautomation rate mailings, mail in SCF sacks would be eligible for the basic per-piece rates. For SCF sacks in automation rate mailings, 5-digit and unique 3-digit packages of 6 or more pieces would qualify for the 3/5 automation rate, and nonunique 3-digit packages as well as 5-digit and 3-digit packages of fewer than 6 pieces would qualify for the basic automation per piece rates.

For the interim period when preparation of SCF sacks will be optional, mailers who choose to prepare SCF sacks must prepare them for each SCF in the mailing for which there are 24 or more pieces of mail prepared in 5-digit and/or 3-digit packages. At the mailer's option SCF sacks may also be prepared that contain fewer pieces (a minimum of one package).

The standard to prepare required origin/optional entry 3-digit sacks will not apply to Periodicals publications for which SCF sacks are prepared. Instead, mailers opting to prepare SCF sacks must prepare required origin/optional entry SCF sacks. At the time SCF sacks become a required level of sortation, the standard to prepare required origin/optional entry 3-digit sacks will be deleted and preparation of required origin/optional entry SCF sacks will become the new standard.

Although exempt from the notice and comment requirements of the Administrative Procedure Act (5 U.S.C. 553(b), (c)) regarding proposed rulemaking by 39 U.S.C. 410(a), the Postal Service invites comments on the following proposed revisions of the Domestic Mail Manual (DMM), incorporated by reference in the Code of Federal Regulations. See 39 CFR part 111.

**List of Subjects in 39 CFR Part 111**

Postal Service.

**PART 111—[AMENDED]**

1. The authority citation for 39 CFR part 111 continues to read as follows:

Authority: 5 U.S.C. 552(a); 39 U.S.C. 101, 401, 403, 404, 3001-3011, 3201-3219, 3403-3406, 3621, 3626, 5001.

2. Revise the following sections of the Domestic Mail Manual as set forth below:

**M Mail Preparation and Sortation**

**M000 General Preparation Standards**

**M010 Mailpieces**

**M011 Basic Standards**

**1.0 TERMS AND CONDITIONS**

**1.2 Presort Levels**

[Redesignate current 1.2j through 1.2m as 1.2k through 1.2n respectively; insert new 1.2j to read as follows:]

j. Origin/optional entry SCF: The separation includes packages for one or more 3-digit areas served by the same sectional center facility (SCF) (see L005) in whose service area the mail is verified/entered. Subject to standard, this separation is required regardless of the volume of mail.

**1.3 Preparation Instructions**

[Redesignate current 1.3j through 1.3p as 1.3k through 1.3q respectively; insert new 1.3j to read as follows:]

j. An origin/optional entry SCF sack contains all 5-digit and 3-digit packages (regardless of quantity) for the SCF in whose service area the mail is verified. At the mailer's option such a sack may be prepared for the SCF area of each entry post office. This presort level applies only to non-letter-size Periodicals prepared in sacks.

**M030 Containers**

**M032 Barcoded Labels**

**1.0 BASIC STANDARDS—TRAY AND SACK LABELS**

**1.3 Content Line (Line 2)**

[Amend Exhibit 1.3a by inserting the following between 3-digit sacks and ADC sacks for PER Flats—Automation to read as follows:]

Class and mailing	CIN	Human readable content line
PER Flats-Auto- mation		
SCF sacks	577	PER FLTS SCF BC

[Amend Exhibit 1.3a by inserting the following between 3-digit sacks and ADC sacks for PER Flats—3/5 and Basic to read as follows:]

**PER Flats—3/5 and Basic**

Class and mailing	CIN	Human readable content line
SCF sacks	384	PER FLTS SCF NON BC

[Amend Exhibit 1.3a by inserting the following between 3-digit sacks and ADC sacks for NEWS Flats—Automation to read as follows:]

Class and mailing	CIN	Human readable content line
NEWS Flats-Automation		
SCF sacks	477	NEWS FLTS SCF BC

[Amend Exhibit 1.3a by inserting the following between 3-digit sacks and ADC sacks for NEWS Flats—3/5 and Basic to read as follows:]

**NEWS Flats—3/5 and Basic**

Class and mailing	CIN	Human readable content line
SCF sacks	484	NEWS FLTS SCF NON BC

**M200 Periodicals (Nonautomation)**

**1.0 BASIC STANDARDS**

**1.5 Low-Volume Packages and Sacks**

As a general exception to 2.4b through 2.4d and 3.1a through 3.1e, non-letter-size Periodicals may be prepared in packages containing fewer than six pieces, and in sacks containing as few as one such package, when the publisher determines that such preparation improves service. These low-volume packages may be placed on 5-digit, 3-digit, and SCF pallets under M045.

**1.6 Optional SCF Sack**

Mailers of non-letter-size Periodicals have the option to prepare an SCF sack level. If mailers choose to prepare SCF sacks, they must prepare them for all SCF destinations in the mailing for which there are 24 or more pieces prepared in 5-digit or 3-digit packages, under 3.1. When SCF sacks are

prepared, required origin/optional entry 3-digit sacks must not be prepared and required origin/optional entry SCF sacks must be prepared.

**3.0 SACK PREPARATION (FLAT-SIZE PIECES AND IRREGULAR PARCELS)**

**3.1 Sack Preparation**

[Redesignate current 3.1e and 3.1f as 3.1f and 3.1g respectively; insert new 3.1e to read as follows:]

Sack size, preparation sequence, and Line 1 labeling:

e. Optional SCF: required at 24 pieces (no minimum for required origin/optional entry SCF), optional with one six-piece package minimum except under 1.5; for Line 1, use L002, Column C.

**M820 Flat-Size Mail**

**1.0 BASIC STANDARDS**

**1.7 Exception-Periodicals**

As a general exception to 3.1a, 3.1b, and 3.2a through 3.2c, Periodicals may be prepared in packages containing fewer than six pieces, and in sacks containing as few as one such package, when the publisher determines that such preparation improves service. These low-volume packages may be placed on 5-digit, 3-digit, and SCF pallets under M045.

**1.8 Optional SCF Sack—Periodicals**

Mailers of Periodicals have the option to prepare an SCF sack level. If mailers choose to prepare SCF sacks, they must prepare them for all SCF destinations in the mailing for which there are 24 or more pieces prepared in 5-digit or 3-digit packages, under 3.2. When SCF sacks are prepared, required origin/optional entry 3-digit sacks must not be prepared and required origin/optional entry SCF sacks must be prepared.

**3.0 PERIODICALS**

**3.2 Sack Preparation**

[Renumber 3.2c and 3.2d as 3.2d and 3.2e respectively; add new 3.1c to read as follows:]

Sack size, preparation sequence, and Line 1 labeling:

c. Optional SCF: required at 24 pieces (no minimum for required origin/optional entry SCF), optional with one six-piece package minimum except

under 1.7; for Line 1, use L002, Column C.

An appropriate amendment to 39 CFR 111.3 to reflect these changes will be published if the proposal is adopted.  
 Stanley F. Mirre,  
 Chief Counsel, Legislative.  
 [FR Doc. 97-24306 Filed 9-12-97; 8:45 am]  
 BILLING CODE 7710-12-P

**FEDERAL EMERGENCY MANAGEMENT AGENCY**

**44 CFR Part 67.**

[Docket No. FEMA-7227]

**Proposed Flood Elevation Determinations**

AGENCY: Federal Emergency Management Agency, FEMA.  
 ACTION: Proposed rule.

**SUMMARY:** Technical information or comments are requested on the proposed base (1% annual chance) flood elevations and proposed base flood elevation modifications for the communities listed below. The base flood elevations are the basis for the floodplain management measures that the community is required either to adopt or to show evidence of being already in effect in order to qualify or remain qualified for participation in the National Flood Insurance Program (NFIP).

**DATES:** The comment period is ninety (90) days following the second publication of this proposed rule in a newspaper of local circulation in each community.

**ADDRESSES:** The proposed base flood elevations for each community are available for inspection at the office of the Chief Executive Officer of each community. The respective addresses are listed in the following table.

**FOR FURTHER INFORMATION CONTACT:** Frederick H. Sharrocks, Jr., Chief, Hazard Identification Branch, Mitigation Directorate, 500 C Street SW., Washington, DC 20472, (202) 646-2796.

**SUPPLEMENTARY INFORMATION:** The Federal Emergency Management Agency (FEMA or Agency) proposes to make determinations of base flood elevations and modified base flood elevations for each community listed below, in accordance with section 110 of the Flood Disaster Protection Act of 1973, 42 U.S.C. 4104, and 44 CFR 67.4(a).

These proposed base flood and modified base flood elevations, together with the floodplain management criteria

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION (NNA)

NNA/USPS T34-5

Please provide estimates of the percentages of periodicals the Postal Service estimates will use the newly proposed basic, 3-digit, 5-digit and carrier route rates.

RESPONSE

The Postal Service's estimate of the volumes in various presort categories for Regular Rate Periodicals and Within County Periodicals are provided in USPS-T-34, Workpaper RR-J and USPS-T-34, Workpaper WC-J. For percent estimates for Regular Rate Periodicals see my response to TW/USPS-T26-2 [d], page 3 of 3, redirected from witness Seckar, and filed September 9, 1997.

The Within County estimated percent breakdown for the test year for the proposed basic, 3-digit, 5-digit, and carrier route rates is as follows:

Basic	16%
3-Digit	4%
5-Digit	12%
Carrier Route	68%

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION (NNA)

NNA/USPS T34-6

Please refer to your description of periodicals mail on page 4 of your testimony.

- a. Please provide any studies or surveys indicating what percentage of within-county periodical mail represents the following categories described by you: magazines, newspapers, newsletters and bulletins.

RESPONSE

It is my understanding that the Postal Service has not conducted any studies or surveys to estimate the percent of Within County periodicals that are magazines, newspapers, newsletters, or bulletins.

The Postal Rate Commission published a study, dated June 18, 1986, and titled "REPORT TO THE CONGRESS: PREFERRED RATE STUDY", that contains a breakdown of Within County mail for newspapers, newsletters, and magazines.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION (NNA)

NNA/USPS T34-7

Please explain your statement on page 20 of your testimony: "passthroughs used for Within-County rates are by necessity much smaller than other classes because the cost study used is for Nonprofit mail."

- a. Please confirm that the study referenced in this statement was filed by the Postal Service as LR-H-111. If you so not confirm, please provide this study.
- b. Please explain in detail why it calls for mitigation of passthroughs for within-county.
- c. Are you sponsoring LR-H-111 in this case? If not, to your knowledge, is any other witness sponsoring that study for use in this case?
- d. If the Postal Service had not decided to assign all non-transportation costs savings to the piece rate for within-county periodicals, what would the discounts for the piece and pound rates have been?

RESPONSE

- a. Confirmed.
- b. The choice of passthroughs in the proposed rate design for Within County was based on the premise of mitigating rate shock, by keeping the increase in each rate cell in a relatively tight band around the proposed average increase of 2.2 percent. The word 'passthroughs' for Within County in the quoted statement on page 20 of my testimony generally refers to all passthroughs used in the Within County rate design, because separate cost studies were not conducted for the Within County subclass. All cost avoidance estimates were based on cost studies for Nonprofit Periodicals. (See LR-H-111 and USPS-T-26).

The passthroughs are mitigated, primarily, for two reasons. First, as indicated above, a goal in rate design was to mitigate rate shock. If larger passthroughs

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION (NNA)

NNA/USPS T34-7[b] continued, page 2 of 3

had been used, the pound rate for "general delivery" and the piece rates for less finely prepared mail, particularly Basic, would have increased dramatically.

Second, I wanted to be conservative in my choice of passthroughs due to the nature of the cost information itself. The Within County rate design employs Nonprofit cost avoidances. By its very definition, Within County mail is distributed in a relatively small geographic area. Consequently, the 'General Delivery' mail on the pound side and 'Basic Non-Automation' mail on the piece side, in most instances, will receive fewer handlings than non-DDU and basic presort mail for other categories which can be handled at several facilities. As such, I believe that Within County DDU dropshipment and basic presort is lower cost mail, and the resulting cost avoidances are likely to be lower.

c. I did not conduct this study. Results of this study are used in the proposed rate design, and I am available to answer any questions regarding this application of the study. Other questions about LR H-111 can be directed to the Postal Service. Please see the Postal Service's response to ABP/USPS-1 in this regard.

d. The Postal Service did not decide to assign all non-transportation cost

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION (NNA)

NNA/USPS T34-7[d] Continued, Page 3 of 3

savings to the piece rates. Please see USPS-T-34, Workpaper WC-F, page 1.

The per pound cost savings of \$0.045 are recognized with a 30 percent  
passthrough to calculate a per pound discount of \$0.014.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION (NNA)

NNA/USPS T34-8

What percentage of Periodicals mail consists of letter-shaped mail? What percentage of within-county mail consists of letter-shaped mail?

RESPONSE

Letter-shaped (Letters and Cards) mail makes up 8.33 percent of Periodicals mail (See Library Reference H-129, Page 1-4). Similar information is not available for Within County mail.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE 4917  
 TO INTERROGATORIES OF TIME WARNER INC. (TW)

Page 1 of 5

TW/USPS-T34-1 The following table shows the breakdown of the FY96 regular rate Periodicals volume by presort and automation categories, as given in the billing determinants and in LR-H-134. While the volume categories given are obviously distinct, since they add up to the total subclass volume in FY96, the distinctions between certain categories are not obvious from their description.

FY 1996 BILLING DETERMINANTS PERIODICALS REGULAR RATE & SCIENCE OF AGRICULTURE (From LR-H-145)	
PIECE RATED W/Discount	
Presort Rates:	6,978,325,228
LEVEL A NON-AUTOMATION	758,910,544
BASIC NON-AUTOMATION	199,089,110
LEVEL A ZIP + 4 NUMERIC	2,357,823
BASIC AUTOMATION LETTER	9,205,104
LEVEL A PREBARCODED LETTES	19,975,455
LEVEL A PREBARCODED FLATS	274,555,711
BASIC AUTOMATION FLAT	84,550,564
LEVEL B3 NON - AUTOMATION	333,524,496
3/5 NON - AUTOMATION	288,082,287
LEVEL B3 ZIP - 4 NUMERIC	477,441
3/5 AUTOMATION LETTER	5,882,586
LEVEL B3 PREBARCODED LETTERS	3,305,294
LEVEL B3 PREBARCODED FLATS	269,219,641
3/5 AUTOMATION FLAT	290,247,033
LEVEL B5 NON-AUTOMATION	875,356,501
CARRIER ROUTE BASIC	517,166,437
LEVEL B5 ZIP + 4 NUMERIC	2,087,031
CARRIER ROUTE HIGH DENSITY	4,608,008
CARRIER ROUTE SATURATION	5,914,564
LEVEL B5 PREBARCODED LETTES	22,024,749
LEVEL B5 PREBARCODED FLATS	795,153,850
CARR-RTE PRESORT BASIC (C1)	2,191,731,345
CARR-RTE PRESORT 125-PIECE WALK SEQ. (C2)	14,768,100
CARR-RTE PRESORT SATURATUON (C3)	10,131,522

Please describe the distinct meaning of each volume category in this table, including a description of how each was measured. In particular:

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF TIME WARNER INC. (TW)

Page 2 of 5

- a. What is the difference between the 517,166,437 pieces called "CARRIER ROUTE BASIC" and the 2,191,731,345 pieces called "CARR-RTE PRESORT BASIC (C1)"? Is there any difference in the way these two categories are made up? How were the two volumes measured?
- b. Please answer the same question for the two categories of high density carrier route and the two categories of saturation carrier route.
- c. Why are some categories referred to as "automation" and some as "pre-barcode" ? Does this reflect any difference in make-up?
- d. Why are some categories referred to as "Level A" and some as "Basic", when it appears that all these categories add up to what is currently named "Level A"?
- e. What is the difference between the categories named B3, B5 and 3/5?
- f. Which volumes are based (1) on RPW only; (2) on RPW combined with data from LR-H-190; and (3) some other combination of data? Please explain.
- g. Do the breakdowns of the Level A and Level B volumes in the table provide a key as to what will be respectively basic, 3-digit and 5-digit under the proposed new presort categories? If yes, please explain.

RESPONSE

The number of categories results from the fact that the base year (FY96) includes three quarters before implementation of Docket No. MC95-1, and one quarter after the implementation of Docket No. MC95-1. The differences in names are due to change in the labels resulting from Docket No. MC95-1. For example, the presort category that was labeled A is now referred to as Basic, and the term 'prebarcoded' has been replaced by 'automation'. Therefore Level A non-automation and Basic non-automation refer to the same presort level for non-automation mail and the Level A includes the first three quarters of FY96, while the Basic volume includes the last quarter. The ZIP+4 category was eliminated in Docket No. MC95-1 and the volume was added to the Automation Letter categories at each respective presort level. Therefore, Level A ZIP+4

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF TIME WARNER INC. (TW)

Page 3 of 5

Numeric was added to Basic Automation Letter, and Level B3 ZIP+4 Numeric and Level B5 ZIP+4 Numeric were added to 3/5 Automation Letter. In the same manner, Prebarcoded letters are added to Automation Letters at their respective presort levels. Therefore, Level A Prebarcoded Letters are added to Basic Non-automation Letters and Levels B3 and B5 Prebarcoded Letters are added to 3/5 Automation letters. Level A Prebarcoded Flats and Basic Automation Flats refer to the same presort level for automation flats and are combined into the Basic Automation Flats category. The Level B3 and B5 categories after Docket No. MC95-1 are combined into a single 3/5 presortation level for both the automation and non-automation categories. Specifically, Level B3 Non-automation, Level B5 Non-automation and 3/5 Non-automation are combined into a single 3/5 Non-automation category and Level B3 and B5 Prebarcoded Flats are combined with 3/5 Automation Flats into a single category labeled 3/5 Automation Flats.

The Carrier Route presortation levels prior to Docket No. MC95-1 were referred to as C1, C2, and C3. The new names for these levels are Carrier Route Basic, High Density and Saturation. The volumes are combined accordingly.

The TYBR categories from these billing determinants are derived in the workpaper titled Transition Matrix (See USPS-T-34, Workpaper RR-B). The

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF TIME WARNER INC. (TW)

Page 4 of 5

measurement methodology is discussed in the testimony of witness Pafford (USPS-T-1), and LR-H-89.

- a) There is no difference between 517,166,437 pieces called "CARRIER ROUTE BASIC" and the 2,191,731,345 pieces called "CARR-RTE. PRESORT BASIC (C1)", as explained above, except that the first number corresponds to the last quarter of FY96 and the last number corresponds to the first three quarters. They both refer to Carrier Route basic sortation level. This same category was referred to by C1 prior to the implementation of Docket No. MC95-1 and Carrier Route Basic after Docket No. Mc95-1. For the methodology of volume measurement please see the testimony of witness Pafford (USPS-T-1), and LR-H-89.
- b) High Density and Saturation were referred to by C2 and C3 after Docket No. MC95-1. Once again, there is no difference between High Density and C2, and Saturation and C3, except for the portion of the base year covered.
- c) The term prebarcoded was replaced by the term automation after Docket No. MC95-1. No. This change in terminology does not reflect any difference in make-up.
- d) Some categories are referred to as "Level A" and some as "Basic" because of the change in terminology, as explained above. They add up to what is currently named "Basic", not "Level A".
- e) Volumes for level B3, and level B5 were reported separately prior to the

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF TIME WARNER INC. (TW)

Page 5 of 5

implementation of Docket No. MC95-1 even though the applicable rates for these two categories were the same except for "barcoded" or "automation" letters. The 3/5 category is the combination of these two categories.

- f) It is my understanding that all the volumes in the billing determinants are based on RPW only. Please see the Postal Service's response to NAA/USPS-1.
- g) No. The volumes for the proposed presort categories for Basic, 3-Digit, and 5-Digit are based on the Second Class mail characteristics study provided in LR-H-190.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF TIME WARNER INC. (TW)  
(REDIRECTED FROM WITNESS SECKAR)

TW/USPS-T-26-1

c. Please confirm that flats (and letters) must be machinable in order to earn barcode discount.

RESPONSE

c. Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF TIME WARNER INC. (TW)  
(REDIRECTED FROM WITNESS SECKAR)

TW/USPS-T26-2

- a. Under the current presort categories for regular rate Periodicals, i.e. levels A, B and C, what percentages of regular rate periodicals pieces had presort levels A, B and C respectively in FY 96, according to the billing determinants?
- b. What proportion of the current level A in regular rate periodicals does the Postal Service believe would qualify for the 3 - digit presort level if the proposed new presort categories were in effect today?
- c. Assuming mailers do not change their presortation practices, but that current level A and B mailers take advantage of the new 5-digit and 3-digit rates to the extent that they already qualify for them, what percentages of regular rate periodicals will have respectively basic, 3-digit, 5-digit and carrier route presortation after the proposed rates are implemented? Please document your answer.
- d. Assuming mailers do not change their presortation or barcoding practices, but that current level A and B mailers take advantage of the new 5-digit and 3-digit rates to the extent that they already qualify for them, what percentages of regular rate periodicals will be respectively basic barcoded, basic non-barcoded, 3-digit barcoded, 3-digit non-barcoded, 5-digit barcoded, 5-digit non-barcoded and carrier route presorted after the proposed rates are implemented? Please document your answer.

RESPONSE

- a. Billing determinants for regular rate periodicals include Science of Agriculture and commingled pieces that add up to a total of 6,984,300,626 pieces for FY 1996 (See USPS-T-34, Workpaper RR-A, pages 1-2). Out of this total, Basic rate (or Level A) makes up 19.32 percent, 3/5 presortation (or Level B) is 41.34 percent, and presortation to Carrier Route is 39.34 percent.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF TIME WARNER INC. (TW)  
(REDIRECTED FROM WITNESS SECKAR)

TW/USPS-T26-2, Page 2 of 3

- b. USPS-T-34, Workpaper RR-B, titled Transition Matrix, contains the appropriate information to calculate the expected shift from Level A to 3-digit if the proposed new presort categories were in effect today. The BYBR Volume provided in the third and fourth column is used to calculate the Level A volume at 1,317,886,934 (including Science of Agriculture and Commingled, but excluding Automation Letters). In the Proposed Rate Structure columns the Level A or Basic presortation volume drops to 454,520,092, an expected shift of 863,366,842 pieces or 65.5 percent from Level A or Basic rate to the 3-digit presort level.
- c. Approximately 7 percent of the regular rate periodicals will have basic rate presortation while 3-digit, 5-digit and Carrier Route presortation levels will have 22, 32 and 39 percent of regular rate periodicals respectively. See attached table for documentation.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF TIME WARNER INC. (TW)  
(REDIRECTED FROM WITNESS SECKAR)

TW/USPS-T26-2, Page 3 of 3

d. The percent breakdown by presort levels for regular rate periodicals would be as follows:

Basic barcoded	2 percent
Basic non-barcoded	5 percent
3-digit barcoded	8 percent
3-digit non-barcoded	14 percent
5-digit barcoded	15 percent
5-Digit non-barcoded	16 percent
Carrier Route	39 percent

Note: See attached table for documentation.

PERIODICAL REGULAR RATE TYAR PIECES				Attachment to Response to TW/USPS-T26-2
SOURCE USPS-T-34, WORKPAPER RR-J, PAGE 1				
1	BASIC NON-AUTOMATION	PIECES	357,845,023	
2	BASIC AUTOMATION LETTER	PIECES	32,277,476	
3	BASIC AUTOMATION FLAT	PIECES	107,300,475	
4	BASIC NON-AUTOMATION 3 DIGIT	PIECES	996,187,232	
5	BASIC AUTOMATION 3 DIGIT LETTER	PIECES	12,029,892	
6	BASIC AUTOMATION 3 DIGIT FLAT	PIECES	573,063,357	
7	BASIC NON-AUTOMATION 5 DIGIT	PIECES	1,160,957,152	
8	BASIC AUTOMATION 5 DIGIT LETTER	PIECES	22,537,348	
9	BASIC AUTOMATION 5 DIGIT FLAT	PIECES	1,073,603,038	
10	CARRIER ROUTE BASIC	PIECES	2,775,519,910	
11	CARRIER ROUTE HIGH DENSITY	PIECES	19,831,870	
12	CARRIER ROUTE SATURATION	PIECES	16,421,229	
13	TOTAL TYAR REGULAR RATE	PIECES	7,147,574,000	

TW/USPS-T26-2 ( c )		Vol. incl. Letters	Percent	Source
14	Basic	497,422,973	6.96%	Lines (1+2+3)/Line 13
15	3-Digit	1,581,280,480	22.12%	Lines (4+5+6)/Line 13
16	5-Digit	2,257,097,539	31.58%	Lines (7+8+9)/Line 13
17	Carrier Route	2,811,773,008	39.34%	Lines (10+11+12)/Line 13
18	Check Total	7,147,574,000	100.00%	

TW/USPS-T26-2 ( d )		Vol. incl. Letters	Percent	Source
	Basic barcoded	139,577,950	1.95%	Lines (2+3)/Line 13
20	Basic non-barcoded	357,845,023	5.01%	Line 1/Line 13
21	3-Digit barcoded	585,093,248	8.19%	Lines (5+6)/Line 13
22	3-Digit non-barcoded	996,187,232	13.94%	Line 4/Line 13
23	5-Digit barcoded	1,096,140,387	15.34%	Lines (8+9)/Line 13
24	5-Digit non-barcoded	1,160,957,152	16.24%	Line 7/Line 13
25	Carrier Route	2,811,773,008	39.34%	Lines (10+11+12)/Line 13
26	Check Total	7,147,574,000	100.00%	

Question 6.

Please provide the source for cells C51 and C52 of the "Discount" worksheet of witness Taufique's (USPS-T-34) Workpapers as shown in spreadsheet 2C\_RR\_X9.xls.

## RESPONSE

The numbers in cells C51 and C52 are supposed to represent the sum of mail processing costs and delivery costs for 3-digit and 5-digit Automation letters as presented in witness Daniel's exhibit USPS-29C page 2. The actual numbers in the cells are incorrect and should be 8.1455 ( $4.7255+3.42$ ) and 6.7847 ( $3.4227+3.362$ ) in cells C51 and C52 respectively to reflect the numbers originally filed by witness Daniel.

Witness Daniel's revision of these costs is reflected in the supplement to my testimony filed October 10, 1997.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO PRESIDING OFFICER INFORMATION REQUEST NUMBER 3

Question 4.

In Docket No. R87-1, the Postal Service proposed to decrease the proportion of revenue obtained from the pound rate for regular Periodicals to 40 percent. This was proposed along with evidence suggesting that the proportion should be even lower. The Commission recommended the 40 percent level and suggested that further study should be given to this question. In Docket No. R90-1, the Postal Service proposed to maintain the 40 percent level but did not provide a study. In recommending the 40 percent level, the Commission noted again the need for studying the issue further. In Dockets No. R94-1 and MC95-1, the 40 percent level was maintained and the need for further study was again noted. In this case, the Postal Service has proposed to increase the proportion to 41 percent. No study is provided. The only justification for the 41 percent level is a statement by witness Taufique that "the pound rate revenue is proposed to generate 41 percent of total revenue, compared to 40 percent in the past." (USPS-T-34 at 13.)

The Commission notes that the Revenue Forgone Reform Act requires that the advertising pound rates for Regular Periodicals be applied to Nonprofit Periodicals and Classroom Periodicals. Therefore, the level of the advertising pound rates in Regular Periodicals, which is affected by the proportion of the revenue obtained from the pound rates, takes on more importance than in the past. In order that the record may be as robust as possible on this issue, the Postal Service is asked to provide any evidence available supporting its proposal to set the proportion at 41 percent.

RESPONSE

The change in the percent of revenue to be collected from pound rates in regular rate Periodicals, i.e. from 40 percent to 41 percent, does not reflect a policy change on part of the Postal Service, and was not a result of any cost study relating weight to the cost of Periodicals. Rather, it was one of the steps taken in the proposed rate design to mitigate the effect of the proposed rate increase by keeping the rate increases and reductions for each cell in a relatively tight range around the average increase (plus or minus 10 percent of current rates).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO PRESIDING OFFICER INFORMATION REQUEST NUMBER 3

POIR No. 3, Question 4, Page 2 of 2

The attached table shows the effect of this split on piece rates. This table was developed by changing only the piece/pound split assumption, everything else remaining constant.

DESCRIPTION	59/41 SPLIT AS PROPOSED			60/40 SPLIT		
	PIECE RATES			PIECE RATES		
	Proposed	Current	% Change	Alternate	Current	% Change
BASIC NON-AUTOMATION	0.263	0.24	9.6%	0.265	0.240	10.4%
BASIC AUTOMATION LETTER	0.182	0.194	-6.2%	0.184	0.194	-5.2%
BASIC AUTOMATION FLAT	0.221	0.209	5.7%	0.223	0.209	6.7%
NON-AUTOMATION 3 DIGIT	0.217	0.202	7.4%	0.219	0.202	8.4%
AUTOMATION 3 DIGIT LETTER	0.166	0.173	-4.0%	0.168	0.173	-2.9%
AUTOMATION 3 DIGIT FLAT	0.188	0.175	7.4%	0.190	0.175	8.6%
NON-AUTOMATION 5 DIGIT	0.214	0.202	5.9%	0.216	0.202	6.9%
AUTOMATION 5 DIGIT LETTER	0.162	0.173	-6.4%	0.164	0.173	-5.2%
AUTOMATION 5 DIGIT FLAT	0.186	0.175	6.3%	0.188	0.175	7.4%
CARRIER ROUTE BASIC	0.128	0.119	7.6%	0.130	0.119	9.2%
CARRIER ROUTE HIGH DENSITY	0.116	0.111	4.5%	0.118	0.111	6.3%
CARRIER ROUTE SATURATION	0.102	0.095	7.4%	0.104	0.095	9.5%

As can be seen from this comparison, the 59/41 split mitigated some relatively large increases.

Given our desire to mitigate rate increases, while at the same time improving rate design, especially through the split of 3-digit and 5-digit presort levels, this relatively small shift from the traditional approach was considered to be in the best interest of this subclass.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO PRESIDING OFFICER INFORMATION REQUEST NUMBER 3

Question 5.

*The zone distribution factors shown in column F of Workpaper RR-G, page 2, of witness Taufique do not include recognition of Science-of-Agriculture pounds. Yet the transportation costs distributed with these factors do cover Science-of-Agriculture mail. Please explain why it is appropriate to omit recognition of Science-of-Agriculture pounds from the distribution of the transportation costs.*

RESPONSE

*It is not appropriate to omit recognition of Science-of-Agriculture pounds from the distribution of transportation costs, and these pounds are recognized for all the zones except the first three rate cells: DDU, DSCF and Zones 1&2. The goal was to treat the revenue from these three rate cells separately in the calculation of target revenues for pound rate calculation, but this treatment was incorrectly omitted. The issue of revenue from advertising pounds in Science of Agriculture publications in Zones 1&2, SCF and DDU is addressed in question number 7.*

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO PRESIDING OFFICER INFORMATION REQUEST NUMBER 3

Question 6.

Workpaper RR-G, page 3, of witness Taufique, shows the removal of 1.2 cents per pound from the advertising rates for zones 7 and 8. Consistent with the proposal to obtain 41 percent of the revenue from the pound rates, please explain where the revenue loss attendant to the 1.2 cent reduction is recovered.

RESPONSE

The revenue loss attendant to the removal of 1.2 cents from the advertising

pound rates for zones 7 and 8 <sup>is</sup> ~~are~~ not explicitly recovered in the proposed rate

*Implicitly this revenue loss is recovered in the piece rates design. In order to keep the rates in a rather tight band around the average (plus because the piece revenue target is derived by subtracting explained or minus 10 percent, overall increase or reduction), this exogenous adjustment pound revenues from the target revenue. Please see line 6 in was made and did not materially affect the resulting cost coverage. The resulting USPS-T-34 Workpaper RR-1.*

~~cost coverage after this and other exogenous adjustments is 0.2 percent below~~

~~the target.~~

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO PRESIDING OFFICER INFORMATION REQUEST NUMBER 3

Question 7.

Workpaper RR-G shows the target revenue from the pound rates on line 5 (page 1) and shows the actual revenue obtained on line 95 (page 3). Consistent with the goal of obtaining the target revenue and thereby of obtaining 41 percent of the revenue from the pound rates, please explain where account is taken of the revenue from the advertising in Science-of-Agriculture publications in Zones 1&2, SCF, and DDU.

**RESPONSE**

The recognition of revenue from advertising pounds in Science of Agriculture publications in Zones 1&2, SCF, and DDU is omitted in the proposed rate design. Revenue from these cells could have been initially subtracted from the target pound revenues and recognized in the explained pound revenues after the derivation of pound rates.

If this revenue was accounted for as suggested in the previous paragraph, the pound rates would change slightly in the following cells:

Workpaper RR-L, Page 1

<b>RATE ELEMENT</b>	<b>PROPOSED RATES</b>	<b>RATES AFTER CHANGE</b>
Zoned Advertising Zones 1 & 2	\$0.203	\$0.202
Zoned Advertising Zone 5	\$0.305	\$0.304
Zoned Advertising Zone 6	\$0.361	\$0.360
Zoned Advertising Zone 7	\$0.416	\$0.415
Zoned Advertising Zone 8	\$0.474	\$0.472

The piece rates would not change due to rounding of the final rates, even though the target revenue from pieces would be reduced from \$993,389,408 to \$993,245,989.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO PRESIDING OFFICER INFORMATION REQUEST NUMBER 3

Question 8.

Workpaper RR-J, page 1, of witness Taufique shows the subtraction of 0.1 cents per piece from the piece rate for basic non-automation Regular Periodicals, at line 31. Because all of the other piece rates are obtained by subtracting a discount from this basic nonautomation piece rate, this subtraction reduces all piece rates by 0.1 cents. Consistent with the goal of obtaining 59 percent of the revenue from the piece rates and of obtaining a target cost coverage of 107 percent, please explain where the revenue loss attendant to the 0.1 cent reduction is recovered.

RESPONSE

The revenue loss attendant to the removal of 0.1 cents per piece from the piece rate for basic nonautomation rate and the subsequent reduction in all the other piece rates is not explicitly recovered in the proposed rate design. In order to keep the rates in a relatively tight band around the average (plus or minus 10 percent, overall increase or reduction), this exogenous adjustment was made and did not materially affect the resulting cost coverage. As stated in the response to question 6, the resulting cost coverage after this and other exogenous adjustments is 0.2 percent below the target.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO PRESIDING OFFICER INFORMATION REQUEST NUMBER 3

Question 9.

In Docket No. R90-1, the Postal Service proposed to give the SCF discount and the DDU discount for Periodicals entirely on a per-pound basis. That proposal was based on arguments that the savings were largely pound oriented. The Commission recommended that the transportation cost savings be given on a per-pound basis and that the nontransportation cost savings be given 50 percent on a pound basis and 50 percent on a piece basis. The 50-50 split for nontransportation costs was maintained through Dockets No. R94-1 and MC95-1. In this case, the Postal Service has proposed to recognize the nontransportation costs entirely on a per-piece basis. As explained by witness Taufique (USPS-T-34 at 19): "Recognition of non-transportation drop shipment cost savings ... for the destination delivery unit (DDU) and DSCF is proposed for piece rates exclusively. This is a break from the past practice of splitting these savings between piece and pound rates." In addition to the sentence just quoted, please provide any evidence or study available to support the proposal to recognize the nontransportation costs entirely on a per-piece basis.

RESPONSE

The decision to recognize non-transportation drop shipment cost savings only in the piece rates and not in the pound rates does not reflect a change in policy on part of the Postal Service. The purpose was to keep increases or reduction in each of the cells below 10 percent.

*The proposed pound rates for the destination delivery unit (DDU) and the destination sectional center facility (DSCF) are \$0.158 and \$0.180 respectively, 6.5 and 5.3 percent reductions from the current rates of \$0.169 and \$0.190. Application of non-transportation drop shipment cost savings provided in LR-H-111 to further reduce these two pound rates would have resulted in greater increases in zones 6 through 8.*

RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE TO  
PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 1

**Question 5.**

Workpaper RR-C, page 1, which accompanies USPS-T-34, shows an implicit cost coverage for advertising matter of 182.17 percent and for editorial matter of 88.93 percent. The column above the former figure shows a subtotal labeled "Advertising Total" and another subtotal labeled "Total Pounds." Since this column is based on an assumption that all of the material is advertising material, please explain why the two subtotals should be different.

**Response**

The two subtotals should not be different because, as correctly stated in the query, this column is based on the assumption that all of the material is advertising material. The subtotal "Total Pounds" is incorrect, and has been deleted. The correction of this error leads to a cost coverage of 130.61 percent for all advertising matter. See my workpaper errata filed on August 14, 1997.

RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE TO  
PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 1

**Question 6.**

Workpaper WC-I, page 1, which accompanies USPS-T-34, contains a column headed "Billing Det." Please provide a source for the figures in this column.

**Response**

This column is not used in the analysis provided in workpaper WC-I, which compares the current rates to proposed rates. The numbers in this column therefore have been deleted in my workpaper errata filed on August 14, 1997.

1 CHAIRMAN GLEIMAN: Does any participant have  
2 additional written cross-examination for this witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: There doesn't appear to be any.  
5 Three participants requested oral  
6 cross-examination of Witness Taufique. The American  
7 Business Press, McGraw-Hill Companies, Inc., and the  
8 National Newspaper Association.

9 Does any other party wish to cross-examine?

10 [No response.]

11 CHAIRMAN GLEIMAN: Mr. Feldman, American Business  
12 Press, whenever you are ready.

13 MR. FELDMAN: Mr. Chairman, on reflection, we have  
14 decided not to cross-examine Mr. Taufique but reserve the  
15 right for followup on questions that may arise here at the  
16 hearing.

17 Thank you very much.

18 CHAIRMAN GLEIMAN: Thank you.

19 Mr. Bergin, McGraw-Hill.

20 CROSS EXAMINATION

21 BY MR. BERGIN:

22 Q Good morning, Mr. Taufique.

23 A Good morning.

24 COMMISSIONER LeBLANC: Would you turn your mic on,  
25 please?

1 CHAIRMAN GLEIMAN: Mic on, please.

2 Thank you.

3 BY MR. BERGIN:

4 Q My name is Tim Bergin. I represent the  
5 McGraw-Hill Companies and I have a few questions for you  
6 this morning.

7 Now, as I understand it, under your rate design  
8 for periodicals/regular mail, the flat editorial pound  
9 charge, the charge for editorial matter, increases 8  
10 percent; is that correct?

11 A You are referring to a particular portion of my  
12 testimony? Basically the -- are you referring to page 2 of  
13 my testimony, sir?

14 Q I believe that would be the reference.

15 A Okay.

16 Yes, the editorial pound rate is 17.4 cents as I  
17 have proposed it.

18 Q And that is an increase of approximately 8 percent  
19 over the current editorial pound charge?

20 A Let me check.

21 Yes, it is.

22 Q But on the other hand, the zoned advertising pound  
23 charges decrease up to a certain point; is that correct?

24 A The zoned editorial pound charges or  
25 advertising --

1 Q Advertising charges.

2 A Advertising pound charges in some of the cells had  
3 gone down, yes.

4 Q For example, destination delivery unit is a  
5 decrease of approximately 6.5 percent?

6 A Yes.

7 Q And the zoned advertising pound charge for SCF  
8 delivery is down about 5.3 percent?

9 A Yes, that is the case.

10 Q And the advertising charge for zone 1 and 2 is  
11 down 5.1 percent?

12 A Yes, that is the case.

13 Q And again, the advertising charge for zone 3 is  
14 down 3.6 percent?

15 A Right, that is the case.

16 Q And no change at all is proposed for zone 4, the  
17 advertising charge for zone 4?

18 A That is true.

19 Q Now, it's true, isn't it, that the transportation  
20 costs attributed to periodicals regular mail have not gone  
21 down in this case; as a matter of fact, they've gone up a  
22 substantial amount? Is that consistent with your --

23 A I have not compared the numbers but it appears to  
24 be that the transportation costs have gone up.

25 Q Now, as I understand it, the basis for your

1 reductions in the zoned advertising charges that we've  
2 discussed is the corresponding increase in the flat  
3 editorial pound charge?

4 A Not necessarily. Basically, if I could zone the  
5 editorial pounds then I would be able to give lower rates  
6 for the drop shipment and SCF drop shipment to editorial  
7 pounds also. But since I am not able to zone, Postal  
8 Service had proposed a zone pound rate for the editorial  
9 pounds in the past that was not approved and since it is a  
10 one price fit all, we sort of -- we have to use one number  
11 for all the editorial pounds.

12 Q My question is, in order to obtain the decreases  
13 in certain of the zone charges for advertising pounds, it  
14 was necessary to increase substantially the flat editorial  
15 pound charge?

16 A I do not agree because what we did was the  
17 editorial pound rate was calculated independently of all the  
18 other rates. Basically, as I have said in my testimony and  
19 some of the interrogatory responses that you had provided,  
20 that you asked, my response was that the editorial pound  
21 rate was calculated based on the total amount of money that  
22 we wanted to get from the pounds divided by the number of  
23 pounds so that was <sup>done</sup> independently of any other rate.

24 Q But before this case, it's true that the flat  
25 editorial pound charge had always been established at 75

1 percent of the zone 1 and 2 charge for advertising pounds;  
2 is that correct?

3 A That is true.

4 Q And this was done in order to appropriately  
5 reflect the so-called ECSI value of periodicals mail?

6 A I think this particular proposal also reflects the  
7 ECSI value of the periodical mail. The difference over here  
8 basically is that since editorial pounds, editorial content  
9 overall, the Commission recommended in R-87 and R-90, and I  
10 have quoted that in my testimony, also had asked that the  
11 implicit cost coverage for editorial pounds should be looked  
12 at and that matter should cover its cost. We decided or at  
13 least I decided that the -- a different method of  
14 calculating the editorial pounds would be a better way to  
15 reflect the cost in this particular case.

16 Q I understand and we will come to that. But it is  
17 true --

18 A I'm sorry.

19 Q It is true that a major change in the rate design  
20 for periodicals regular mail that you propose is to decouple  
21 the flat editorial pound charge from the zone 1 and 2 charge  
22 for advertising pounds?

23 A That's a good word to use. I have not used that  
24 word, but I would agree with that, this was a decoupling  
25 effort, right. And I would like to note also that with this

1 decoupling we do not want abrupt changes or increases in the  
2 editorial pound rate, so that is why the passthrough or at  
3 least the pound rate that we are proposing is 90 percent of  
4 what we think it should be to cover the cost in terms of  
5 recovering --

6 Q I understand.

7 A The revenue amount.

8 Q Now before this case the benchmark for the pound  
9 charges used to be the zone 1 and 2 advertising charge; is  
10 that not correct?

11 A That is true.

12 Q In other words, you would take the total target  
13 revenue without a markup and you would divide it by total  
14 pounds and get an average required revenue per pound and  
15 that would be the zone 1 and 2 charge before this case?

16 A I lost you somewhere. I think you -- you started  
17 off with editorial pound rate --

18 Q No, uh --

19 A That being the -- that being 75 percent of zone 1  
20 and 2 --

21 Q In the past, yes.

22 A Yes, could you repeat the question?

23 Q Well, under that regime in the past the zone 1 and  
24 2 charge was the benchmark.

25 A That is true.

1 Q That would be the first charge that would be  
2 established or calculated, I should say.

3 A Actually all the rates for the advertising zone  
4 rates were calculated simultaneously in the past also, and  
5 then zone 1 and 2 became the benchmark for the calculation  
6 of the editorial pound rate.

7 Q In the past didn't you start with a calculation of  
8 the average required revenue per pound --

9 A We did --

10 Q The Postal Service.

11 A We did the same thing; yes.

12 Q And that would be the zone 1 and 2 charge?

13 A No, the total revenue that was required of pounds  
14 was the first number, and from that point onwards the  
15 distribution of the distance-related transportation cost by  
16 zone was done based on pound-miles, and what was bothersome  
17 in that part of the design was that there was always a  
18 residual amount that was not being allocated based on  
19 pound-miles, it was a ~~scalar~~<sup>scalar</sup> that was being added, and that  
20 is what made me look at the whole rate design issue and  
21 decoupling the editorial pound took care of the problem in  
22 terms of allocating all the distance-related transportation  
23 cost to the zones based on pound-miles as it should have  
24 been done. As a ~~scalar~~<sup>scalar</sup>, s-c-a-l-~~a~~<sup>a</sup>-r, a constant number that  
25 was being added.

1 Q Well, as I understand it, the main reason for your  
2 change that resulted in the proposed decoupling of the flat  
3 editorial pound charge from the zone 1-2 charge for  
4 advertising, the main reason was concern with the so-called  
5 implicit editorial cost coverage.

6 A That was an issue that I was grappling with ~~that~~<sup>as</sup> I  
7 was working on this rate design as to how to come up with an  
8 editorial pound charge and the piece discount for editorial  
9 rate, editorial content, so that the editorial content would  
10 at least have a decent implicit cost coverage.

11 Q Was that the main reason why you proposed the  
12 decoupling of the flat editorial pound charge from the zone  
13 charges?

14 A That was the main reason that I had in mind in  
15 terms of looking at the rate design issues in this  
16 particular case.

17 Q And the reason that implicit editorial cost  
18 coverage became an issue for you in this case was your  
19 understanding that the target cost coverage for the subclass  
20 was 107 percent?

21 A I think implicit cost coverage has been an issue  
22 in the past cases. Also as you had asked me to compare the  
23 implicit cost coverage, I think it was one of the  
24 McGraw-Hill interrogatories that asked me to compare the  
25 implicit cost coverage that Witness Foster came up with and

1 compare that to what I had and why it differed, so implicit  
2 cost coverage was an issue that the Commission had raised,  
3 that the Postal Service was concerned about. This was -- I  
4 think this was the first time we proposed a rate design that  
5 decoupled the editorial pound rate from the other  
6 advertising zone rates to address that issue and to come  
7 closer to the goal of at least 100-percent cost coverage for  
8 the editorial pounds.

9 Q You say to come closer to that goal.

10 A Right.

11 Q Now you used the same methodology in estimating  
12 the implicit editorial cost coverage that Witness Foster  
13 used in the R-94 proceeding; correct?

14 A I sure did.

15 I might add that you had asked me to compare it  
16 and I looked at it very carefully at that point in time and  
17 it was basically the same methodology that the Commission  
18 had used and Witness Foster had used.

19 Q And Witness Foster in the R94-1 proceeding  
20 calculated an implicit editorial cost coverage of about 95.5  
21 percent.

22 A I think you're right.

23 Q And the reason for your lower calculation of an  
24 implicit editorial cost coverage is your understanding that  
25 the subclass, the cost coverage for the subclass as a whole,

1 is 107 percent?

2 A Let me turn to the response that I had given to  
3 you folks on that one, and I think that would help me.

4 Q I think it's McGraw Hill Number 1(C)(1).

5 A Right. I said that the major reason for the  
6 difference in the editorial content cost coverage based on  
7 my analysis was the target cost coverage itself. If the  
8 target cost coverage is lower, the editorial pound cost  
9 coverage would also be lower, yes.

10 Q So that to the extent that the actual subclass  
11 cost coverage, in this case the cost coverage for  
12 periodicals regular mail as a whole, is higher.

13 For example, to the extent that mail processing  
14 costs have been misallocated to periodicals regular mail --

15 A Do you want me to agree with that? I have no  
16 knowledge of --

17 Q No, I just want you to assume that for a second.

18 A Okay.

19 Q To the extent that actual subclass cost coverage  
20 is higher <sup>then</sup> ~~than~~ the implicit editorial cost coverage is  
21 likewise higher. I mean they work in tandem, right?

22 A The two issues that you raised, the costs may be  
23 higher --

24 Q And costs lower --

25 A If the cost was lower and the cost coverage was

1 higher, if you wanted to recover the same revenue, then the  
2 editorial pound coverage -- editorial pound cost coverage  
3 would also be higher, yes, but still significantly below 100  
4 percent.

5 Q Well, it would depend upon how much the subclass  
6 cost coverage were higher?

7 A Yes.

8 Q And by the same token, if a higher subclass cost  
9 coverage were proposed in a future case, then you would  
10 agree that, depending on the level of the cost coverage, it  
11 might be appropriate to revert to the tradition of  
12 calculating the editorial pound charge at 75 percent of the  
13 Zone 1-2 charge for advertising pounds?

14 A My proposal is to decouple them, and I think I  
15 have talked about that.

16 The decoupling takes care of it, because it is a  
17 very direct method of making sure that the costs are  
18 covered, so that is why I proposed what I have proposed in  
19 this particular filing.

20 Q As I understand it, your proposal is designed to  
21 address the unique situation presented in this case was  
22 based upon an assumption of a low cost coverage for the  
23 subclass, which created the problem of the low implicit  
24 editorial cost coverage?

25 A The implicit cost coverage for the editorial

1 content has been an issue in the past cases also. All that  
2 I have proposed is a better method of taking into account --

3 Q It's been a much smaller issue in past cases, is  
4 that not correct?

5 A But in R87 and R90, I believe, the Commission had  
6 stated that it was actually below 100 percent in all cases.

7 Q But it was much closer, it was closer to 100  
8 percent in R94 than it would be under your proposed rate  
9 design?

10 A It was probably closer, you're right.

11 Q And the determining factor is the subclass cost  
12 coverage?

13 A For the difference in the cost coverage itself for  
14 the editorial content, one of the reasons would be the  
15 overall cost coverage for the subclass, but that does not  
16 mean that the methodology that we have proposed of  
17 decoupling the editorial pounds does not have merit, because  
18 I think it does take into account a much direct method of  
19 making sure that the costs are covered.

20 Q Then again we have the -- strike that.

21 May I refer you to page 15, lines 1 and 2 of your  
22 testimony?

23 A Line 1 and 2, you said?

24 Q Yes. You state there that nontransportation cost  
25 is distributed based on all the advertising pounds including

1 the DDU pounds. Have I read that correctly?

2 A Right. What I have called nontransportation is  
3 distributed to all the zones plus SCF and DDU.

4 Q Now, it is also true that nontransportation costs  
5 are embedded in the flat editorial pound charge; is that  
6 correct?

7 A What do you mean by that? Could you explain that  
8 a little bit further? I'm lost on this one.

9 Q Well, in addition to transportation costs, there  
10 are other costs that are covered by the pound charges; is  
11 that not correct?

12 A The advertising pound charges or the editorial  
13 pound charges?

14 Q Both.

15 A Yes, editorial pound charges has all three -- what  
16 I have defined as transportation cost, distance and  
17 nondistance and the residual amount is what I have  
18 classified as nontransportation cost. That is covered, part  
19 of that is covered in the editorial pound rate also.

20 Q And what does that nontransportation cost  
21 represent?

22 A That represents the residual amount after we  
23 subtract out the transportation cost from the overall  
24 revenue required from the pound side.

25 Q So those represent undefined other costs that are

1 to be covered by the pound charges?

2 A Right.

3 Q And in fact these nontransportation charges are  
4 the -- represent the largest component of the flat editorial  
5 charge; is that not correct?

6 A Let me check that out. You may be right but let  
7 me confirm that.

8 They are slightly larger than the distance-related  
9 transportation costs, yes. They are the largest, you're  
10 right.

11 Q If you combine the distance and the nondistance  
12 related transportation, the nontransportation is still  
13 higher, isn't it?

14 A Yes, it is.

15 Q And the allocation of these nontransportation  
16 costs to the editorial pound charge is essentially  
17 arbitrary, isn't it? In other words, it falls out of the  
18 establishment of a target revenue for the pound charges?

19 A I think if you go back to the basic premise of  
20 dividing the revenue requirements into pounds and pieces,  
21 that was the premise. And if you agree with that premise or  
22 if you disagree <sup>with</sup> that premise, I don't know where you're  
23 coming from. But based on that, that is the amount of money  
24 we are supposed to recover from the pounds and that is the  
25 way we have done it.

1           Transportation cost is the concrete element in  
2 there that is the cost we have paid for transportation and  
3 whatever is left over is based on the 41 percent of the  
4 revenue that is to be recovered from pounds.

5           Q     And you are recovering -- you are proposing to  
6 recover more from the pound charges in this case than in  
7 previous cases?

8           A     Slightly more.

9           Q     Could I refer you, please, to page 1 of your  
10 testimony?

11          A     Yes, I'm there.

12          Q     Now, there you set forth the proposed percent  
13 change in rates for regular periodicals mail of 3.5 percent?

14          A     Yes.

15          Q     And you have a footnote which states that the  
16 average rates do not include fees. I wondered why fees were  
17 not included.

18          A     Basically, fees are calculated separately. They  
19 are not part of my rate design as such, given the numbers.  
20 So that is why I wanted to look at the effect of the  
21 proposal that I had made in terms of rate changes.

22          Q     But if the effect of fees paid by regular  
23 periodicals mailers is taken into account, then that could  
24 affect the estimate of the percentage overall increase  
25 proposed for regular periodicals mailers?

1           A     I have not done the calculation but I would accept  
2 the fact that if the fees were included, it may be slightly  
3 higher but not a whole lot. If you have done the  
4 calculations --

5           Q     Four percent?

6           A     I doubt it very much. I have not done the  
7 calculation but the fees inclusion, fees is a very small  
8 percent of the total revenues. So by not calculating the  
9 numbers, I would think maybe a .1 increase in the percent  
10 change is what I would expect, but if you have done the  
11 calculations I will accept it subject to check.

12          Q     Well, I think if your number for the current  
13 average revenue per piece of 2.26 cents were slightly  
14 changed to 2.25 cents, that could make the difference from  
15 3.5 percent to 4 percent in the overall percentage change?

16          A     Why would the average revenue per piece go down?  
17 It will go up. Inclusion of the fee would actually increase  
18 both of those numbers.

19          Q     Is it fair to say that you would accept Witness  
20 Patelunas' calculation of the average revenue per piece in  
21 this regard?

22          A     I haven't seen his numbers in that regard. Do you  
23 have the numbers that I can look at?

24          Q     He presumably -- well, I just gave you one, the  
25 only change I am aware of. But he presumably took into

1 account the fee revenue.

2 A And the difference in the percent change in the  
3 average dollar per piece is 4 percent, including the fees  
4 revenues alone?

5 Q By my calculation.

6 A I haven't seen the numbers so I really can't  
7 comment on that.

8 MR. BERGIN: Thank you, Mr. Taufique. I have  
9 nothing further.

10 CHAIRMAN GLEIMAN: National Newspaper Association.  
11 Ms. Rush.

12 CROSS EXAMINATION

13 BY MS. RUSH:

14 Q Good morning, Mr. Taufique, I'm Tondra Rush. I'm  
15 counsel to the National Newspaper Association.

16 A Good morning.

17 Q Would you turn to page 5 in your testimony?

18 A Sure.

19 Q In the last sentence of the second paragraph there  
20 you make reference to the decline in within county mail  
21 volume since 1985, and you make a brief reference there to a  
22 discussion that Dr. Tolley has presented about changes in  
23 sampling procedures. I realize you're referencing his  
24 testimony in that case, but is it fair to infer that you're  
25 discussing sampling of mail volumes in this context?

1 A I would say yes.

2 Q You would say yes.

3 A But I'm not sure, because I looked at his  
4 testimony and what he had discussed in terms of forecasting  
5 variables, and my interest was basically to look at the  
6 history and see, since I'd been a forecaster in my past  
7 life, I was interested in that area to look at how things  
8 had changed over time and what the rate implications would  
9 be given those changes.

10 Q It would be fair to assume I guess that if the  
11 sampling procedures changed and we might infer improved that  
12 we're not actually looking at changes in the mail, we're  
13 just looking at more accurate measurement systems for  
14 capturing what's in the mail stream. Would that be a fair  
15 statement?

16 A Not knowing enough about the postal sampling  
17 procedures, but I would agree with you generally that  
18 statement is true.

19 Q Okay. As you've looked at that process, as far as  
20 you know, those changes are in place today and the mail  
21 volumes are being actually captured?

22 A I am not the right person to ask that question.

23 Q Okay. You don't have any knowledge of that.  
24 You're just referring to the fact that this is an  
25 explanation for declining mail volumes; is that correct?

1 A Exactly. That's what I was looking for.

2 Q Okay. Thank you.

3 Would you turn then to NNA's question to you No.

4 T-34-2?

5 Do you have that?

6 A Just a minute.

7 Yes, I have it.

8 Q Okay. You presented a discussion for us there of  
9 exceptional dispatch, and let me briefly summarize a long  
10 answer here. I believe you told us that this is a tool  
11 that's used for time-sensitive publications to deliver short  
12 hauls to delivery units and occasionally offices other than  
13 delivery units, primarily for service. Is that correct?

14 A That is -- again, I'm not an expert in this area,  
15 because -- that is my understanding of exceptional dispatch  
16 being available for time-sensitive publication, and it can  
17 be brought to a DDU of a delivery unit at 3 o'clock on the  
18 morning for delivery. Otherwise it would take a much longer  
19 time to go through the normal process of getting it  
20 verified.

21 Q Okay. Thank you. You tried to capture for us at  
22 our request the primary differences between an exceptional  
23 dispatch mailing and an ~~EDU~~<sup>DDU</sup> entry, and let me just see if  
24 I've captured the ones that you've told us. One thing you  
25 said is the DDU mail must be sorted to the carrier router,

1 the five-digit level, and exceptional dispatch has no  
2 presort requirements. Is that right?

3 A That is my understanding again.

4 Q Okay. You also said that DDU entry mail has to  
5 have been plant verified or entered at a DDU where there's  
6 an additional entry authorized, and that would not be the  
7 case for exceptional dispatch.

8 A That is my understanding.

9 Q Okay. And then you also said that obviously a  
10 discount's authorized for DDU entry but not for exceptional  
11 dispatch.

12 A Again, that is my understanding.

13 Q That's still correct.

14 A Right.

15 Q Okay. Can you think of any other differences?

16 A When <sup>this question</sup> ~~discussion~~ came to me I had talked to a whole  
17 bunch and I think the differences are -- that this  
18 particular mail is not verifiable because it comes in at  
19 different times where there is nobody there to verify the  
20 mail, and that is why this particular provision was made, to  
21 take into account delivery problems and time-sensitivity  
22 problems than any of the rate issues as far as I know.

23 Q Do you call -- is DDU entries a form of drop  
24 shipping?

25 A DDU entry is drop shipment.

1 Q Would you call exceptional dispatch also a form of  
2 drop shipping?

3 A With the noted differences that I've just talked  
4 about.

5 Q Okay. So the difference is that we're avoiding  
6 some transportation cost which in the case of exceptional  
7 dispatch we've not measured and -- but there is obviously  
8 some small savings there.

9 A Since there are other issues regarding the  
10 operational issues in this particular case, verification of  
11 the mail and the timing of the delivery, I really can't  
12 comment on that as to whether the cost savings are there or  
13 not.

14 Q But the mechanical issues of how you verify what's  
15 in that mail and what time it's entered and whether there's  
16 personnel, all those things aside, you would agree that  
17 there is some small savings to the Postal Service if the  
18 mailer is actually transporting this mail 20, 30, 40 miles?

19 A I have not been involved in the costing of mail as  
20 such, so I really would not be able to comment on that.

21 Q So you wouldn't agree that there's a  
22 transportation savings to the Postal Service?

23 A Like I said, not knowing enough about the process  
24 itself, and I sort of caveated my response by saying it is  
25 my understanding because I have to go to a lot of different

1 folks to get information on this particular subject.

2 Q Okay.

3 MS. RUSH: Okay, thank you, Mr. Taufique.

4 CHAIRMAN GLEIMAN: Is there any follow-up?

5 [No response.]

6 CHAIRMAN GLEIMAN: No follow-up. Questions from  
7 the bench? Commissioner LeBlanc?

8 COMMISSIONER LeBLANC: Mr. Taffu --

9 THE WITNESS: Taufique.

10 COMMISSIONER LeBLANC: Taufique --

11 THE WITNESS: Right.

12 COMMISSIONER LeBLANC: I blew that one, didn't I?  
13 Okay.

14 CHAIRMAN GLEIMAN: I guess you did.

15 THE WITNESS: I have heard worse though.

16 COMMISSIONER LeBLANC: With a name like LeBlanc, I  
17 get it also, so don't worry.

18 In your rate design for periodicals, letter size  
19 pieces without bar codes at a certain presort level pay the  
20 same rates as flats without bar codes at the same presort  
21 level.

22 On the other hand, letters with bar codes pay the  
23 rate that is reduced not only by the avoidance for being  
24 barcoded but also by the difference in cost between letters  
25 and flats. That's as I am reading it.

1           Can you discuss why it is fair to give barcoded  
2 letters a discount for being a letter but not to give  
3 non-barcoded letters a discount for being a letter?

4           THE WITNESS: When I started looking at the rate  
5 designing issues for periodicals, that didn't occur to me,  
6 but traditionally the zPostal Service has proposed the  
7 rates --

8           COMMISSIONER LeBLANC: I'm sorry, I can't hear  
9 you.

10          THE WITNESS: Traditionally the way the Postal  
11 Service had proposed the rates and the Commission had  
12 approved them, it seemed like on the non-barcoded,  
13 nonautomation mail there was no distinction being made for  
14 letters.

15          The second issues, as I looked at the whole  
16 process, was that letters were a very small portion. Ninety  
17 percent of the periodicals mail is flat, a small percent  
18 could be classified as parcels, and I think about 9 percent  
19 or so appears to be letters, so it is a small portion and  
20 given all the information that I had, I think I go one step  
21 further in terms of allowing the letter shaped mail to get  
22 both the barcode discount and the shape discount --

23          COMMISSIONER LeBLANC: And that made up your  
24 difference?

25          THE WITNESS: I did not have the volume

1 information. As far as I know, there was no volume  
2 information available to me to place the letters in the  
3 nonautomation category separately, but I don't think anybody  
4 else in the past had done it separately either.

5 COMMISSIONER LeBLANC: You proposed classroom  
6 rates which would yield a cost coverage in the low 90  
7 percent range.

8 THE WITNESS: I'm sorry, I did not propose the  
9 classroom rates at all.

10 COMMISSIONER LeBLANC: You did not?

11 THE WITNESS: No. I worked with the regular rate  
12 periodicals and within-county periodicals.

13 The witness after me, Mr. Kaneer, has worked with  
14 the classroom rates.

15 COMMISSIONER LeBLANC: Well, I may have to ask  
16 this in a form of POIR question, but we'll get it out.

17 THE WITNESS: He will be coming on the stand in a  
18 few minutes in fact.

19 COMMISSIONER LeBLANC: That's okay. It may get a  
20 little lengthy so we may leave it off. Thank you very much.

21 Thank you, Mr. Chairman.

22 CHAIRMAN GLEIMAN: Mr. Taufique, I have a couple  
23 of questions.

24 In response to McGraw Hill number one --

25 THE WITNESS: Yes, sir?

1           CHAIRMAN GLEIMAN:  -- you indicated that the  
2 Commission had made a small error in calculating the cost  
3 coverage of editorial materials in the R94-1 docket.

4           Specifically you indicated that an error involved  
5 double counting of the area in the area of science of  
6 agriculture.

7           THE WITNESS:  That is what I found from the  
8 workpapers, and I made a similar error in the other  
9 direction, actually.  I left it out.

10          CHAIRMAN GLEIMAN:  Well, for the benefit of the  
11 Commission and the parties who might be interested, in order  
12 that we not perpetuate our earlier error or perhaps make an  
13 error as you did in the other direction, I am wondering if  
14 you could submit a short note describing the exact nature of  
15 the error, where it exists in the spreadsheet, and how one  
16 might go about correcting it.

17          THE WITNESS:  I'll try to do that.

18          CHAIRMAN GLEIMAN:  That would be very helpful.

19          THE WITNESS:  Okay.

20          CHAIRMAN GLEIMAN:  Now according to the billing  
21 determinants, it appears that the Postal Service has begun  
22 collecting data for science of agriculture publications for  
23 Zones 3 through 8.

24          These are the zones for which publications do not  
25 receive a special rate and I am wondering if there is some

1 specific reason that the Service has begun to collect that  
2 data that you could apprise us of?

3 THE WITNESS: I am not aware of the reasons as to  
4 why science of agriculture data has been collected now.

5 CHAIRMAN GLEIMAN: I have two other questions.

6 You varied your pass-throughs rather dramatically,  
7 ostensibly to ensure that the increases in the various rate  
8 cells didn't exceed 10 percent.

9 Is that because you got a guideline on the level  
10 of rate increases?

11 THE WITNESS: It was an iterative process  
12 basically. We came up with rates in the first pass-through,  
13 went back and looked at -- talked to a bunch of people, and  
14 I think the 10 percent guideline was sort of evolved through  
15 the discussion process that we had in terms of going back  
16 and forth on the rates and looking at the effect on  
17 different cells, so it wasn't an iron-clad guide and I think  
18 it sort of evolved with my consent that with the smaller  
19 rate increase that we were proposing in this particular  
20 case, it would make sense to limit all the cells to some  
21 degree of -- to have a rather tight band around the percent  
22 increase that we are proposing for the overall class.

23 CHAIRMAN GLEIMAN: Okay. In response to Question  
24 Number 6 of Presiding Officer's Information Request Number  
25 3, you indicated, and I will give you a moment to get there,

1 you indicated, and I quote, "The revenue loss attendant to  
2 the removal of 1.2 cents from the advertising pound rate for  
3 Zones 7 and 8 are not explicitly recovered in the proposed  
4 rate design."

5 THE WITNESS: That's true.

6 CHAIRMAN GLEIMAN: Would you please turn to your  
7 workpapers RR1 on page 1, and I am specifically interested  
8 in line number 6.

9 THE WITNESS: RRI, you mean? Yes.

10 CHAIRMAN GLEIMAN: On line 6 there is a figure  
11 entitled "Piece Target after Pounds."

12 THE WITNESS: Yes, I see that.

13 CHAIRMAN GLEIMAN: This figure is a residual. It  
14 appears that if the revenue received from pounds were to be  
15 lowered for any reason, this figure would increase.

16 Would you explain whether this means in fact that  
17 you recovered from the piece rates the revenue loss by  
18 subtracting that 1.2 cents from your Zones 7 and 8 pound  
19 rate, and if so, does this mean that perhaps the Presiding  
20 Officer Information Request response should be revised?

21 THE WITNESS: Give me a moment to think about this  
22 a little bit.

23 CHAIRMAN GLEIMAN: Certainly.

24 THE WITNESS: That appears to be the case and if  
25 that is the case, I didn't think about it. There was no

1 explicit leakage that I had noted in there. Thank you very  
2 much.

3 CHAIRMAN GLEIMAN: It's complicated, just as we  
4 may have made an error somewhere in the double count on the  
5 science of agriculture, I can certainly understand. So we  
6 will look forward to the revised response from question  
7 number three then.

8 THE WITNESS: Sure.

9 CHAIRMAN GLEIMAN: Is there any followup as a  
10 consequence of questions from the Bench?

11 [No response.]

12 CHAIRMAN GLEIMAN: If not, that brings us to  
13 redirect. Mr. Rubin, would you like some time with your  
14 witness?

15 MR. RUBIN: Yes. Could we have five minutes?

16 CHAIRMAN GLEIMAN: Correct.

17 [Recess.]

18 CHAIRMAN GLEIMAN: Mr. Rubin?

19 MR. RUBIN: The Postal Service has no redirect.

20 CHAIRMAN GLEIMAN: Since there is no redirect, I  
21 want to thank you, Mr. Taufique. We appreciate your  
22 appearance here today and your contributions to our record  
23 and if there is nothing further, you're excused.

24 THE WITNESS: Thank you.

25 [Witness excused.]

1           CHAIRMAN GLEIMAN: Mr. Rubin, we had another  
2 witness, Mr. Kaneer, for whom we had no cross-examination.  
3 Mr. Alverno, is he your witness?

4           MR. ALVERNO: Yes.

5           CHAIRMAN GLEIMAN: How would you like to proceed?  
6 Is he in the room?

7           MR. ALVERNO: He is right here.

8           CHAIRMAN GLEIMAN: If you will call him, we will  
9 move along then.

10          MR. ALVERNO: The Postal Service calls Kirk  
11 Kaneer.  
12 Whereupon,

13                           KIRK T. KANEER,  
14 a witness, was called for examination by counsel for the  
15 United States Postal Service and, having been first duly  
16 sworn, was examined and testified as follows:

17                           DIRECT EXAMINATION

18           BY MR. ALVERNO:

19           Q     Please introduce yourself.

20           A     My name is Kirk Kaneer. I am an economist with  
21 the U.S. Postal Service Pricing Office.

22           Q     Earlier, I handed you two copies of a document  
23 entitled Direct Testimony of Kirk Kaneer on Behalf of the  
24 United States Postal Service marked as USPS-T-35. These  
25 copies are with the reporter.

1           Have you examined those copies?

2           A     Yes, I have.

3           Q     And was this testimony prepared by you or under  
4 your direction?

5           A     Yes, it was.

6           Q     Do you have any changes or corrections to make?

7           A     Yes, I do. I've filed a revised page 6. Lines 23  
8 and 24 were inadvertently omitted in the Xerox copy and the  
9 testimony that we are filing today includes that revised  
10 page as well as revisions that were filed on August 14 and  
11 October 15.

12          Q     And if you were to testify orally today -- orally  
13 today, would your testimony be the same?

14          A     Certainly would.

15               MR. ALVERNO: Mr. Presiding Officer, I ask that  
16 the direct testimony of Kirk Kaneer on behalf of the U.S.  
17 Postal Service marked as USPS-T-35 be received as evidence  
18 at this time?

19               CHAIRMAN GLEIMAN: Are there any objections?

20               [No response.]

21               CHAIRMAN GLEIMAN: Hearing none, Mr. Bernstein's  
22 testimony and exhibits are received into evidence and I  
23 direct that they be accepted into evidence. As is our  
24 practice, they will not be transcribed into the record.

25                                               [Direct Testimony and Exhibits of

1 Kirk T. Kaneer, Exhibit No.  
2 USPS-T-35, was marked for  
3 identification and received into  
4 evidence.]

5 CHAIRMAN GLEIMAN: Mr. Kaneer, have you had an  
6 opportunity to examine the packet of designated written  
7 cross-examination that was made available earlier today?

8 THE WITNESS: Yes, I have.

9 CHAIRMAN GLEIMAN: If these questions were asked  
10 of you today, would your answers be the same as those you  
11 previously provided in writing?

12 THE WITNESS: Yes, I would.

13 CHAIRMAN GLEIMAN: Mr. Alverno --

14 MR. ALVERNO: Two copies were given to the  
15 reporter.

16 CHAIRMAN GLEIMAN: You've already provided two  
17 copies to the reporter. Thank you for your assistance in  
18 that regard.

19 COMMISSIONER LeBLANC: You misspoke. You said  
20 Witness Bernstein rather than Witness Kaneer.

21 CHAIRMAN GLEIMAN: Excuse me.

22 I apparently misspoke. I apologize, Mr. Kaneer.

23 Two copies of the corrected designated written  
24 cross-examination of Witness Kaneer, I will direct that they  
25 be accepted into evidence and transcribed into the record at

1 this point.

2

[Designation of Written

3

Cross-Examination of Kirk T. Kaneer

4

was received into evidence and

5

transcribed into the record.]

6

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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS KIRK T. KANEER  
(USPS-T-35)

The parties listed below have designated answers to interrogatories directed to witness Kaneer as written cross-examination.

Party

Answer To Interrogatories

Office of the Consumer Advocate

POIR:

POIR No. 1, questions 3.

Respectfully submitted,

  
Cyril J. Pittack  
Acting Secretary

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO.1**

POIR No. 1 Question 3. The workpapers of witness Kaneer, USPS-T—35, are designated by the letters A through O, with one or more page numbers under each letter. Most of the papers were printed from Excel worksheets contained on disks in Library Reference H-205. Workpaper B, pages 3-7 and Workpaper C, pages 2-5, reference Library Reference PRR-2 in Docket No. MC96-2, but the associated disk does not appear to contain those sheets. To insure that the record is complete, please clarify the source and provide any associated disks for Workpaper B, pages 3-7; Workpaper C, pages 2-5; Workpaper D, pages 1-2; Workpaper F, page 1; Workpaper G, page 1; Workpaper I, page 1; Workpaper J, page 1; Workpaper L, page 1; Workpaper N, page 1; and Workpaper O, page 1.

**RESPONSE:**

- A. With respect to Workpaper B, pages 3-7, the data source is the file entitled "Results" in Docket No. MC96-2, USPS LR-PRR-2 Disk 1. For example, in the Disk 1 worksheet entitled "Barcoded", cell L76 displays the value 87,850,516 pieces, which denotes barcoded five digit pieces in sacks or trays. This figure is reported in USPS LR-H-205 in cell B of the file entitled "Tablenp2", worksheet "Survey Results".
- B. With respect to Workpaper C, pages 2-5, the data source is a Classroom Mail Characteristics study draft report dated October 6, 1996. The study's objective was to gather data on the current container and package makeup for classroom mailings from a survey conducted from September 16 through October 13, 1995. Its sample design consisted of 205 post offices which had reported classroom mail acceptance in postal quarter 1, FY95. The report notes that Classroom transactions are very concentrated - 70.9 percent of the revenues are recorded by only six offices. Though still in draft form, this

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO.1

4971

study is most likely to contain the best available information on which to base the proposed splitting of the 3/5-digit tier into separate 3-digit and 5-digit rate categories. The Excel file containing Workpaper C, pages 2-5, was provided in the Excel file contained in Library Reference H-205 in the file entitled "Tablecl2" in the worksheet named "Classroom Data".

C. With respect to Workpaper D, pages 1-2 of that workpaper are printed listings of the values used as inputs for calculations used in the Excel programs for Nonprofit and Classroom subclasses (Excel files "2C\_NP\_X3" and "2C\_CR\_X2"). Using the initial diskette supplied in USPS LR-H-205, Step 5 and 6 rates for subsequent workpapers (Workpaper F, page 1; Workpaper G, page 1; Workpaper I, page 1; Workpaper J, page 1; Workpaper L, page 1; Workpaper N, page 1; and Workpaper O, page 1) could be easily generated by manually changing the cell corresponding to the value for the Cost Coverage Step Factor from 6/6 to 5/6. Instructions to this effect were printed prominently on the cover page to USPS LR-H-205. For simplicity, Nonprofit and Classroom Excel workbooks with the Cost Coverage Step Factor set at both Step 5 and Step 6 for both subclasses were filed on August 14, 1997 in a revised diskette containing all underlying electronic spreadsheets for my workpapers. The Excel worksheets for the requested material for Nonprofit are contained in the Excel file entitled "2C\_NP\_X3", in the worksheets entitled: "Rate Design Inputs (Step 5)", "Revenue Requirement (Step 5)",

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO.1

4972

"Pound Rates (Step 5)", "NP Reg. Rate Piece Rate (S5)", "TYAR B.D. (S5)",  
and "Rate Dev. Bill. Det. (S5)". The Excel worksheets for the requested  
material for Classroom are contained in the Excel file entitled "2C\_CR\_X2", in  
the worksheets entitled: "Rate Design Inputs (Step 5)", "TYAR B.D. (Step 5)",  
and "Rate Development (2)(S5)."

1           CHAIRMAN GLEIMAN: We don't have any written  
2 cross -- any oral cross-examination requests. Are there any  
3 questions from the Bench?

4           No questions from the Bench.

5           That being the case, Mr. Kaneer, we appreciate  
6 your short visit here today and your contributions to our  
7 record and you are one of the lucky ones so, again, thank  
8 you and you're excused.

9           THE WITNESS: I'm glad to assist in any way I can.  
10 Thank you.

11 [Witness excused.]

12           CHAIRMAN GLEIMAN: Mr. Koetting?

13           MR. KOETTING: Thank you, Mr. Chairman.

14           The Postal Service calls as its next witness Peter  
15 Bernstein.  
16 Whereupon,

17                           PETER D. BERNSTEIN,  
18 a witness, was called for examination by counsel for the  
19 United States Postal Service and, having been first duly  
20 sworn, was examined and testified as follows:

21                           DIRECT EXAMINATION

22                   BY MR. KOETTING:

23           Q     Mr. Bernstein, would you please state your  
24 complete name for the record?

25           A.     Peter Daniel Bernstein.

1           Q     Mr. Bernstein, I am handing you a copy of a  
2 document labeled Direct Testimony of Peter Bernstein on  
3 Behalf of the United States Postal Service which has been  
4 designated as USPS-T-31.

5                     Are you familiar with this document?

6           A     I am.

7           Q     Was it prepared by you or under your supervision?

8           A     Yes, it was.

9           Q     If you were to testify orally today, would this be  
10 your testimony?

11          A     Yes, it would be.

12                     MR. KOETTING: Mr. Chairman, I will hand the  
13 reporter two copies of the direct testimony of Peter  
14 Bernstein, USPS-T-31, and move that that be accepted into  
15 evidence.

16                     CHAIRMAN GLEIMAN: Are there any objections?

17                     [No response.]

18                     CHAIRMAN GLEIMAN: Hearing none, Mr. Bernstein's  
19 testimony and exhibits are received into evidence and I  
20 would direct that they be accepted into evidence and, as is  
21 our practice, they will not be transcribed into the record.

22                                     [Direct Testimony and Exhibits of  
23 Peter Bernstein, Exhibit No.  
24 USPS-T-31, was marked for  
25 identification and received into

1 evidence.]

2 CHAIRMAN GLEIMAN: Mr. Bernstein, have you had an  
3 opportunity to examine the packet of designated written  
4 cross-examination that was made available earlier today?

5 THE WITNESS: I have, yes.

6 CHAIRMAN GLEIMAN: If these questions were asked  
7 of you today, would your answers be the same as those you  
8 previously provided in writing?

9 THE WITNESS: Yes, they would be.

10 MR. KOETTING: Mr. Chairman, I would like to note  
11 that we did find one interrogatory response that was listed  
12 on the front as designated that had been omitted and we did  
13 insert that into the packet.

14 CHAIRMAN GLEIMAN: Do you have two corrected  
15 copies?

16 MR. KOETTING: We have the corrected copies.

17 We also realphabetized, some of them were out of  
18 alphabetical order. We thought the transcript would read  
19 better if they were all alphabetized so we have the two  
20 corrected copies.

21 CHAIRMAN GLEIMAN: The question then occurs as to  
22 which way you alphabetized them, by the party who asked them  
23 to go in or the party that asked the interrogatory.

24 MR. KOETTING: The party who asked the  
25 interrogatory is how it seemed. There was one that was out

1 of order by either, either method.

2 CHAIRMAN GLEIMAN: Okay, thank you. If you would  
3 please provide the corrected copies to the reporter, I will  
4 direct that the written -- designated written  
5 cross-examination of Witness Bernstein be accepted into  
6 evidence and transcribed into the record at this point.

7 [Designation of Written  
8 Cross-Examination of Peter  
9 Bernstein was received into  
10 evidence and transcribed into the  
11 record.]

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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS PETER BERNSTEIN  
(USPS-T-31)

The parties listed below have designated answers to interrogatories directed to witness Bernstein as written cross-examination.

<u>Party</u>	<u>Answer To Interrogatories</u>
ADVO, Inc.	ADVO\USPS: Interrogatories T31-1-2. DMA\USPS: Interrogatories T31-2. NAA\USPS: Interrogatory T31-2, 9, 14, 16, 19. OCA\USPS: Interrogatories T31-2-5, 11-12. POIR: POIR #1, Question 4. POIR: POIR #3, Question 1-3.
American Business Press	ABP\USPS: Interrogatories T31-1-6.
Direct Marketing Association, Inc.	DMA\USPS: Interrogatories T31-1-2. AAPS\USPS: Interrogatory T31-1. ABP\USPS: Interrogatories T31-2 and 4. ADVO\USPS: Interrogatories T31-1- 2. APWU\USPS: Interrogatory T31-1. NAA\USPS: Interrogatories T31-2-3, 6, 13-16, 20. OCA\USPS: Interrogatories T31-1-5, 7, 9-12. UPS\USPS: Interrogatories T31-1-2. POIR: Response of USPS POIR No. 1, Aug. 18, 1997, Item 4.
Mail Order of Association of America	ADVO\USPS: Interrogatories T31-1. DMA\USPS: Interrogatories T31-1-2. NAA\USPS: Interrogatories T31-1-21. OCA\USPS: Interrogatories T31-1-13.
Newspaper Association of America	NAA\USPS: Interrogatories T31-2-10, 13-17, 21.

OCA\USPS: Interrogatories T31-4-5, 10.  
POIR: POIR No. 1 question 4.

Office of the Consumer Advocate

OCA\USPS: Interrogatories T31-1-13.  
AAPS\USPS: Interrogatory T31-1.  
ABP\USPS: Interrogatories T31-1-6.  
APWU\USPS: Interrogatory T31-1.  
NAA\USPS: Interrogatories T31-1-21.  
POIR: POIR No. 1, question 4.  
POIR: POIR No. 3, questions 1-3.

United Parcel Service

UPS\USPS: Interrogatories T31-1-2.  
ABP\USPS: Interrogatories T31-1-2, 4-5.  
NAA\USPS: Interrogatories T31-1-4, 6-16, 20-  
21.  
OCA\USPS: Interrogatories T31-1-5, 7-10, and  
13.

Respectfully submitted,

  
Cyril J. Pittack  
Acting Secretary

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF ADVO

ADVO/USPS-31-1. USPS Witness Thress has estimated a cross-volume elasticity of 0.04 for First-Class nonworkshare mail with respect to the Enhanced Carrier Route (ECR) mail.

- a. Has this cross-volume elasticity been included into your Ramsey price calculation for ECR mail? If not please explain fully.
- b. Please confirm that the positive cross-volume effect estimated by Witness Thress can be considered a negative cross-price effect between these two types of mail (a lower response of First-Class Mail to a higher rate for advertising-related ECR mail). If you cannot confirm, please explain fully.
- c. Please confirm that the negative cross-price elasticity of First-Class Mail with respect to ECR mail can be derived through the chain rule of calculus as the positive elasticity of the cross-volume effect multiplied by the negative own-price elasticity with respect to Enhanced Carrier Route mail. If you cannot confirm, please explain fully.
- d. Do you agree that incorporating this negative cross-price effect in your analysis lowers the Ramsey price of ECR mail? Please explain.

RESPONSE:

a. Cross-volume effects between the volume of Standard A ECR mail or Standard A Regular mail and the volume of First-Class nonworkshared mail were not included in my Ramsey price calculations. Although the positive cross-volume effect can be mathematically converted into a negative cross-price effect, the cross-volume effect does not conform to the usual features of a cross-price elasticity. Please see the response by witness Thress to NAA/USPS-T6-4 for a discussion of the difference between a cross-volume elasticity and a true cross-price elasticity.

However, in retrospect, it appears that the cross-volume elasticity should have been included in my volume forecasts. Since total Standard A mail under Ramsey rates is greater than total Standard A mail volume under the non-Ramsey rates,

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF ADVO

inclusion of the cross-volume effect would have caused an increase in First-Class letter volume under Ramsey pricing. This increase in letter volume would have produced additional net revenues, meaning that the Ramsey prices of all mail products could have been reduced somewhat from the levels presented in my testimony. All the same, the effect is not large given the small value of the cross-volume elasticity.

b. Please see the response to NAA/USPS-T6-4.

c. Please see the response to NAA/USPS-T6-4.

d. I can confirm that under Ramsey pricing, a negative cross-price elasticity causes the Ramsey price of a product to be lower. The lower Ramsey price results because price increases produce more leakage when a negative cross-elasticity exists. The rise in price causes a decline in the volume of the product experiencing the own-price increase and also a decline in the volume of the product that has a negative cross-price elasticity.

As I stated in sub-part (a) of this response, I chose not to include the cross-volume effect in my Ramsey price calculations because I do not view it as a cross-price elasticity in the traditional sense. Moreover, even if one were to convert the cross-volume effect to a cross-price elasticity and include it in the Ramsey price calculations, the likely effect on the Ramsey prices would be small owing to the small value of the implied cross-price elasticity.

**RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF ADVO**

ADVO/USPS-31-2. Please refer to your discussion of the Ramsey workshare discount on pages 87-89 of your testimony. You refer to the difference between the Ramsey single-piece and workshare rates as a "discount" and when, that rate difference is greater than the USPS avoided cost difference, you describe it as causing a productive inefficiency.

Assume a class of mail that offers an optional discount for presortation. In that class there are two general types of mailers. Type A mailers are significantly more price sensitive than Type B mailers. Many A mailers have a user cost of sortation that is lower than the USPS presort discount and therefore presort and take advantage of the USPS presort discount, although a significant number of A mailers do not presort. All B mailers have a higher user cost for sortation and do not presort. Further assume that the USPS discount is the same for both mail types and is based on an accurate estimate of avoided cost, and that the price elasticities of type A and type B mailers are accurately estimated.

- a. Do you agree that the different demand elasticities and user costs for type A and type B mailers will result in different Ramsey prices for these mail types? If not, explain why not.
- b. Do you agree that separate type A and type B Ramsey prices would result in an increase in allocative efficiency? If not, explain why not.
- c. Do you agree that if separate type A and type B Ramsey prices were developed, the same presort discount (equal to the USPS avoided cost) could be applied to both prices? If not, explain why not.
- d. If the presort discounts are based on USPS avoided costs for both the type A and type B mail, would rates as described in (c) above generate any productive inefficiency? Please explain your response.

**RESPONSE:**

While I will try to be responsive, I find this question somewhat confusing. There appear to be two separate issues addressed in this interrogatory. The first issue regards the optimal prices to be charged for Type A and Type B mailers. However, the Postal Service does not set rates for mailers, it sets rates for mail. Therefore, my responses to this interrogatory depends on whether the Postal Service can distinguish

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF ADVO

between Type A and Type B mailers based on the type of mail that they send. The second issue regards the optimal presort discounts for Type A and Type B mailers (or mail?). As explained in my testimony, the optimal workshare discount depends on the cost difference between workshared and nonworkshared mail, but also on the presence of any demand elasticity differences between workshared and nonworkshared mail. Therefore, the optimal presort discount for Type A mail depends in part on whether within Type A mail there exists a different price elasticity for presorted and nonpresorted mail, but not on whether there exist differences in the demand elasticities of Type A and Type B mailers.

Furthermore, the interrogatory states, "all B mailers have a higher user cost for sortation and do not presort." If this is the case, I do not understand the attention subparts (c) and (d) pay to the presort discount for Type B mailers since by construction, your interrogatory presumes that no Type B mailers presort. Perhaps the quoted statement means that no Type B mailers can send Type A mail (which may be presorted), but there again the confusion between mailers and mail complicates the answer.

a. For simplicity, let us assume that, in the absence of presortation, the Postal Service per-piece costs for mail sent by type A and type B mailers are identical. In that case, the Ramsey prices for type A and type B mailers would be different, with the less price-elastic type B mailers facing a higher Ramsey price. However, this answer requires that it is possible for the Postal Service to distinguish between type A and type B mailers and to charge type A and type B mailers different prices. Otherwise, type B mailers would send mail at the lower type A mail price. For example, it may be that

**RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF ADVO**

within First-Class single-piece mail there are mailers with different own-price elasticities. However, I see no way in which the Postal Service could charge less price-elastic single-piece mailers a higher price than the price charged to more price-elastic single-piece mailers. Instead, a Ramsey price can be determined for all single-piece mail based on the price elasticity of demand of all single-piece mail, which is an aggregate of the (probably) different price elasticities of the individual mailers who comprise single-piece mail.

Consider now the role that presortation plays in price setting. In your hypothetical, some A mailers may presort but no B mailers presort. Therefore, it can be presumed that the Postal Service's per piece costs for mail sent by A mailers is less than the cost of mail sent by B mailers, since some A mail is presorted. The lower average cost for Type A mail would, along with the greater own-price elasticity of Type A mailers, lead to a lower price for Type A mail than for Type B mail.

b. Assume that it is possible to charge different mailers different prices. The Ramsey prices based on different own-price elasticities discussed in sub-part (a) would yield an increase in allocative efficiency as compared to the case where all mailers are charged the same rate. However, if there is no way for the Postal Service to distinguish between Type A and Type B mailers so as prevent less price-elastic type B mailers from sending mail at the lower price set for more price-elastic type A mailers, then separate prices could result in an decrease in allocative efficiency.

c. Again, assume that it is possible to charge type A and type B mailers separate prices. If this is the case, then it is certainly possible to establish the same presort

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF ADVO

discount for these two types of mailers. Whether it is optimal to do so would depend, in part, on whether within the class of type A or type B mailers there exist important differences in demand elasticities for presorted and nonpresorted mail.

d. If presort discounts are set at the Postal Service's cost savings from mailer presorting, then no productive inefficiency will occur. As noted in sub-part (c), this level of presort discount could yield an allocative inefficiency if the demand elasticities for presorted and nonpresorted mail were different. Moreover, as I stated in the preamble to this response, I am confused by the attention in sub-parts (c) and (d) to the presort discount for type B mailers since in your interrogatory you state, "all B mailers have a higher user cost for sortation and do not presort."

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF AAPS

AAPS/USPS-T31-1. In response to NAA/USPS-T31-15, you state that a "two-part tariff" does not "appear ... practical" for the Postal Service. Is Ramsey pricing "practical" for the Postal Service? Please explain.

RESPONSE:

Yes, I believe that Ramsey pricing is practical for the Postal Service. In response to NAA/USPS-T31-15, I stated that the two-part tariff discussed in that interrogatory was impractical because of the various administrative complications that would arise. I do not envision any administrative problems arising from Ramsey pricing. The basic pricing concept would remain as it is now, with product prices marked-up above volume variable costs per piece in a way that satisfies the break-even requirement. Moreover, I do not believe that one has to adopt the exact Ramsey prices presented in my testimony in order to realize some or most of the benefits from efficient pricing.

**RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF ABP**

ABP/USPS-T31-1. You state at page 2 that your purpose is to present prices that achieve the dual goals of satisfying the break even requirement and minimizing the "burden on mailers" based on Ramsey pricing.

- a. That is a description of your testimony. What is your understanding of the "purpose" of your testimony as part of the overall Postal Service presentation in this case? In other words, in your view, how does this testimony support the rate increase request filed?
- b. What were your instructions from the Postal Service prior to the preparation of this testimony?

**RESPONSE:**

a. My understanding of the purpose of my testimony as part of the overall case is to provide the Postal Service and the Postal Rate Commission with an understanding of economic efficiency as it relates to postal rate making, present postal rates for the 1998 Test Year based on the principle of economic efficiency, and give all interested parties a methodology for evaluating the costs -- in terms of lost economic efficiency -- of other considerations that they may use to propose and establish postal rates.

I do not know how my testimony supports the specific rate changes proposed by the Postal Service. For a discussion of the use of Ramsey price principles in postal rate making, please see the testimony of Donald J. O'Hara (USPS-T-30).

b. I was instructed by the Postal Service to present theoretical, intuitive, and empirical Ramsey price analysis of postal rates for the 1998 Test Year.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF ABP

ABP/USPS-T31-2. You show that at page 4 that if Ramsey pricing were implemented, the average postage for periodicals would increase from 22.56 cents to 47.24 cents, or by 109%.

- a. Confirm that but for the fact that rates for preferred subclasses of periodicals are tied to the regular rates, this increase would have been greater. By how much?
- b. Given the increase for periodicals under Ramsey pricing, please explain how its implementation would minimize the burden on periodical mailers.
- c. If your answer is that the burden on periodicals mailers would not be minimized, explain on what mailers the burden would be minimized.

RESPONSE:

- a. A discussion of the pricing of Regular Periodicals is presented in my testimony at page 62, lines 7 through 18 and repeated here for convenience.

Periodicals Regular mail is not completely inelastic, but its own-price elasticity of only -0.143 suggests that large amounts of net revenue could be raised from this product with very little social loss. However, the mark-up of the three preferred subclasses of Periodicals mail is tied to the mark-up of Regular Mail. Therefore, while there would be little social loss in Regular mail from a large increase in Regular mail price, there would be a potentially large social loss from the corresponding higher prices for the three preferred subclasses of Periodicals mail. Therefore, the price of Periodicals Regular mail is constrained below its "true" Ramsey price. Since Periodicals mail is less elastic than First-Class letters, it should have a higher mark-up. To maintain the relative mark-ups called for by Ramsey pricing, Periodicals Regular mail is assigned a mark-up of 113.62 percent, or 1.1 times the 103.29 percent Ramsey mark-up for First-Class letters.

Thus, there were two considerations involved in the pricing of Regular Periodicals: i) the link between the mark-ups of the Regular and Preferred subclasses as noted in this interrogatory and ii) the decision to constrain the Ramsey mark-up of Regular Periodicals to be ten percent greater than the First-Class letter mark-up to reflect the fact that Regular Periodicals is less price elastic than First-Class letters.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF ABP

As explained in my response to NAA/USPS-T31-1(d), I did not calculate Ramsey prices independent of the constraints on the mark-ups of the preferred subclasses.

b and c. Ramsey pricing does not minimize the burden on users of any particular mail product, which would be achieved by setting the price of that product equal to its marginal cost. Instead, Ramsey pricing yields mark-ups above marginal cost on all products (imposing some burden on users of all products) in a way that minimizes the total burden across all users.

**RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF ABP**

ABP/USPS-T31-3. Do you agree that if Ramsey pricing were to be implemented as you propose it, there would be fewer periodicals mailed than there would be if the rates proposed by the Postal Service were implemented? How many fewer?

**RESPONSE:**

As the accompanying table shows, under the Ramsey prices proposed in my testimony, total volume of the Periodicals class is forecasted to be 9,479.917 million pieces, or 778.056 million pieces less than the forecasted total volume under rates proposed by the Postal Service.

**TABLE A  
Forecasted Test Year Volumes of Periodicals Mail  
(in millions of pieces)**

Subclass	Test Year Volume (Ramsey Rates)	Test Year Volume (USPS Proposed Rates)	Volume Effect of Ramsey Pricing
In-county	745.225	901.870	-156.645
Nonprofit	2,011.876	2,161.077	-149.201
Classroom	26.825	47.452	-20.627
Regular	6,695.991	7,147.574	-451.583
<b>Total</b>	<b>9,479.917</b>	<b>10,257.973</b>	<b>-778.056</b>

**RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF ABP**

ABP/USPS-T31-4. Do you agree that if Ramsey pricing were to be implemented as you propose it, there would be more advertising mail than there would be if the rates proposed by the Postal Service were implemented? How much more?

**RESPONSE:**

The definition of advertising mail is less clear than the definition of Periodicals mail referred to in the previous interrogatory, ABP/USPS-T31-3. While most advertising mail is sent as Standard A, some First-Class mail is advertising and obviously catalogs sent as Standard B mail could be considered advertising. Table B compares the Test Year volumes of Standard A mail (excluding single-piece mail) under Ramsey pricing and under the rates proposed by the Postal Service. As Table B shows, the volume of advertising mail so defined is forecasted to be 8,355.697 million pieces more under Ramsey pricing than under the rates proposed by the Postal Service.

**TABLE B  
Forecasted Test Year Volumes of Standard A Bulk Mail  
(in millions of pieces)**

Subclass	Test Year Volume (Ramsey Rates)	Test Year Volume (USPS Proposed Rates)	Volume Effect of Ramsey Pricing
Regular	32,477.211	37,627.555	-5,150.344
ECR	42,218.488	28,686.181	+13,532.307
Nonprofit	9,827.207	10,550.968	-723.761
Nonprofit ECR	3,268.778	2,571.283	+697.495
<b>Total</b>	<b>87,791.684</b>	<b>79,435.987</b>	<b>+8,355.697</b>

**RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF ABP**

ABP/USPS-T31-5. You state at page 62 that "large amounts" of additional revenue could be raised from periodical mailers with "very little social loss." Please define "social loss" as you have used the term and describe the small amount of social loss that would be in your opinion be experienced.

**RESPONSE:**

The social loss as it relates to my testimony is defined as the sum of the change in consumer surplus and the change in Postal Service net revenues. This sum is negative because raising net revenues requires pricing above marginal cost and prices above marginal cost lead to a decline in consumption. The social loss is related to this decline in consumption since units not consumed provide no benefit to mailers or the Postal Service. Any postal rate schedule that satisfies the break-even requirement will result in a social loss. Ramsey pricing minimizes this social loss and therefore minimizes the loss of mailer consumer surplus since Postal Service net revenues are the same under any pricing schedule.

<sup>f</sup>  
<sup>f</sup> In the case of Regular Periodicals mail, the social loss is small because an increase in price causes only a relatively small decline in volume. Table C shows the reduction in consumer surplus, the increase in Postal Service net revenues, and the social loss (equal to the sum of the loss of consumer surplus and gain in net revenues) from Regular Periodicals mail.

**TABLE C**

Subclass	Loss of Consumer Surplus Under Ramsey Pricing from Table 13 (USPS-T-31)	Increase in Net Revenues under Ramsey Pricing from Table 11 (USPS-T-31)	Difference (Social Loss due to decline in consumption)
Regular Periodicals	-\$1,396.2 million	\$1,342.4 million	-\$53.8 million

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF ABP

Table C shows that Ramsey pricing of Regular Periodicals mail raises \$1,342.4 million of net revenue while causing a social loss of only \$53.8 million.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF ABP

ABP/USPS-T31-6. Your colleague, Professor Tolley, describes the trend toward growth in specialty magazines. Assume that there would be fewer such magazines if periodical postage rates doubled. Would this factor enter into your calculation of social loss? Explain.

RESPONSE:

I did not distinguish between specialty and non-specialty magazines in my calculations of change in consumer surplus or change in Postal Service net revenues. Any decline in volume of specialty magazines that would result from Ramsey pricing is included in the estimated change in Regular Periodicals consumer surplus, net revenues, and social loss.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF APWU

APWU/USPS-T31-1. On page 81, line 21 ff., you state:

"... the type of mail that is most likely to shift from single-piece to workshare mail is probably relatively low cost single-piece mail. As a result, when the workshare discount is increased, the mail that shifts from single-piece to workshare probably has a cost that is less than the average cost of all single-piece mail, a consideration that is relevant to both Ramsey Pricing and Efficient Component Pricing."

On page 85, lines 1 -3, you state:

"A key assumption of the price calculation is that when a piece of mail shifts from single-piece to workshare, the postal marginal cost of that mail falls from the single-piece marginal cost of \$0.2324 to the workshare marginal cost of \$0.0991, thereby saving the Postal Service saves [sic] \$0.1333 per piece."

- a. Please confirm that the marginal cost figure you used on page 85 for mail shifting from single-piece to workshare mail is the marginal cost of single-piece mail, and not the lower marginal cost that you said on page 81 should be used for mail shifting from single-piece to workshare.
- b. Please explain why the marginal cost figure you used on page 85 for the mail shifting from single-piece to workshare mail is the marginal cost of single-piece mail, and not the lower marginal cost you said on page 81 should be used for mail shifting from single-piece to workshare.

RESPONSE:

a and b. The two quotes referred to in your interrogatory come from different sections of my testimony. The first quote is contained in a discussion of some of the conceptual issues that are part of the pricing of single-piece and workshared letters. One of those conceptual issues relates to the theory of Efficient Component Pricing which states that the workshare discount should be set equal to the Postal Service cost savings that result from mailer worksharing. Postal Service cost savings can be approximated by the difference between the Postal Service cost of single-piece and workshare mail. At page 81 of my testimony, I point out that the difference between the

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF APWU

Postal Service costs of single-piece and workshare mail may not reflect the Postal Service's cost savings from mailer worksharing. The mail that shifts from single-piece to workshare (in response to an increase in the workshare discount) is single-piece mail that has a relatively low mailer cost for worksharing. It may be the case that the very characteristics of a piece of mail that make it relatively less costly for the mailer to prepare might also make that mail less costly for the Postal Service. Therefore, the difference between the Postal Service cost of single-piece and workshare letters may not exactly equal the Postal Service cost savings that result when mail shifts from single-piece to workshare.

The second quote is contained in a section that makes illustrative empirical calculations of single-piece and workshare letter prices. Part of the purpose of this exercise is to determine the inter-relation between the principles of Efficient Component Pricing and Ramsey Pricing. The marginal costs of single-piece and workshare letters are necessary inputs for the price and discount calculations. While it may be the case that there are in fact differences in the postal marginal costs of different types of single-piece (and, for that matter, workshare) mail, I have no information regarding what might be the marginal cost of single-piece mail that shifts to workshare mail. Instead, I make the assumption that all single-piece has the same postal marginal cost and that all workshare mail has the same (lower) postal marginal cost. This assumption allows me to calculate separate Ramsey prices for single-piece and workshare letters.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF DMA

DMA/USPS-T31-1. Please refer to Table 11 on page 55 of your direct testimony, Exhibit USPS-30B, and Exhibit USPS-30G.

- a. Please confirm that if the Postal Service used the R97-1 After-Rates Ramsey Prices shown in Table 11 of your testimony, then: (1) the mark-up on Standard A Commercial mail (excluding Single-Piece mail) would be 56.6 percent, (2) the volume of Standard A Commercial mail (excluding Single-Piece mail) would be 74.7 billion, (3) the cost of Standard A Commercial mail (excluding Single-Piece mail) would be \$7.052 billion, and (4) the revenue from of Standard A Commercial mail (excluding Single-Piece mail) would be \$11.749 billion.
- b. Please confirm the following Test Year After Rates statistics under the USPS-proposed rates: (1) USPS-proposed markup on Standard A Commercial mail is 74.1 percent, (2) Standard A Commercial mail volume is 66.3 billion pieces, (3) Standard A Commercial cost is \$7.078 billion, and (4) Standard A Commercial revenue is \$12.326 billion.
- c. Please confirm that, under R97-1 After-Rates Ramsey Prices, Standard A Commercial Test Year After Rates Volume would be approximately eight billion pieces higher than under the USPS-proposed rates.
- d. Please confirm that, under R97-1 After-Rates Ramsey Prices, Standard A Commercial Test Year After Rates revenue would be approximately \$400 million lower than under the USPS-proposed rates.

RESPONSE:

a through d. Confirmed.

**RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF DMA**

**DMA/USPS-T31-2. Please refer to Table 13 on page 70 of your testimony.**

- a. Please confirm that moving from Non-Ramsey to Ramsey prices increases consumer surplus by \$1.023 billion.**
- b. Please confirm that moving from Non-Ramsey prices to Ramsey prices for the Standard A Commercial subclasses (excluding the Single-Piece subclass) increases consumer surplus by \$752 million.**
- c. Are the Non-Ramsey prices shown in Table 13 based upon the R97-1 USPS-proposed rates or are they R97-1 After-Rates Prices based on the R94-1 Mark-Up Index?**
- d. If the Non-Ramsey prices shown in Table 13 are not developed from R97-1 USPS-proposed rates, please provide a revision of Table 13 which uses R97-1 USPS-proposed rates to develop the figures in the "Non-Ramsey Prices" column.**

**RESPONSE:**

**a. Confirmed.**

**b. Confirmed.**

**c. The Non-Ramsey prices presented in Table 13 are R97-1 After-Rates prices based on the R94-1 Mark-Up Index.**

**d. Table 13 provides the estimated change in Test Year consumer surplus resulting from a move from the Non-Ramsey rates to Ramsey rates. A calculation of the change in consumer surplus resulting from a move from USPS-proposed rates to Ramsey rates is complicated by the fact that the USPS rate proposal included a number of initiatives that were not considered in the calculation of the Ramsey or Non-Ramsey rates**

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF DMA

presented in Table 13. For example, the USPS proposal eliminates the Standard A single-piece mail subclass and projects that the before-rates volume of this subclass would be entered into other mail remaining mail subclasses. No calculation of the effect of this proposal on consumer surplus is made. Furthermore, the USPS proposal includes various features which affect total revenues, total costs, and net revenues that were not considered in my testimony. In addition, the Postal Service proposal results in total revenues that were somewhat greater than total costs, whereas the Ramsey prices were constrained to yield total revenues exactly equal to total costs. Overall, then, the total contribution from the 22 mail products considered in my testimony is \$266.8 million less than the contribution obtained under USPS-proposed rates. The total gain to society from a move to Ramsey pricing from the USPS-proposed rates, therefore, is equal to the gain in consumer surplus less \$266.8 million, as shown in Table 13-A accompanying this response.

As Table 13-A shows, the estimated total gain from Ramsey pricing as opposed to the USPS proposal is equal to \$388.8 million.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF DMA

**TABLE 13-A**  
**Change in Consumer Surplus from Ramsey Pricing**

Mail Product	USPS-Proposed Price	Ramsey Price	Change in Consumer Surplus (\$ millions)
First-Class Letters	\$0.3518	\$0.3551	-319.5
First-Class Cards	\$0.1972	\$0.1420	+337.4
Priority Mail	\$3.7770	\$2.4124	+1,771.8
Express Mail	\$13.4120	\$11.2947	+135.5
Periodicals In-County	\$0.0928	\$0.1416	-40.2
Periodicals Nonprofit	\$0.1585	\$0.2409	-171.8
Periodicals Classroom	\$0.2168	\$0.4229	-7.7
Periodicals Regular	\$0.2363	\$0.4724	-1,634.5
Standard Single Piece	N.A.	\$1.6402	N.A.
Standard Regular	\$0.2132	\$0.2575	-1,552.3
Standard ECR	\$0.1500	\$0.0802	+2,475.5
Standard Nonprofit	\$0.1281	\$0.1498	-221.5
Standard NP ECR	\$0.0783	\$0.0554	+67.0
Parcel Post	\$3.3364	\$4.1123	-157.8
Bound Printed Matter	\$0.9128	\$0.8435	+39.7
Special Rate	\$1.7572	\$1.7775	-4.1
Library Rate	\$1.8249	\$2.0383	-6.0
Registry	\$8.5808	\$8.3269	+3.7
Insurance	\$2.4331	\$2.9067	-14.4
Certified	\$1.4993	\$1.7266	-69.8
COD	\$4.6381	\$9.3372	-17.5
Money Orders	\$1.0136	\$0.8368	+42.0
Total Change in Consumer Surplus			+655.6
Difference in Ramsey and USPS Net Revenues			-266.8
Total Gain from Ramsey Pricing			+388.8

**RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA**

**NAA/USPS-T31-1. Please refer to the "purpose" of your testimony presented at page 2.**

- a. Please confirm that you define the following two purposes of your testimony:
1. Present prices for subclasses and special services that satisfy the Postal Service 1998 revenue requirement and "minimize the burden on mailers resulting from the break-even requirement based on the Ramsey pricing formula," and,
  2. Provide a guideline for postal pricing based on economic efficiency, allowing the Postal Service and regulators to measure the cost of using non-economic rate design criteria in terms of lost economic efficiency.

If you cannot confirm, please explain how either or both of these purposes is incorrect or incomplete.

- b. In your view, are the statutory restrictions on institutional cost recovery from the preferred subclasses included in the "other considerations beyond economic efficiency" references at lines 13 to 14? Please fully explain any negative response.
- c. Do the statutory restrictions on institutional cost recovery from the preferred subclasses reduce economic efficiency? Please explain why or why not.
- d. If your response to part (c) is affirmative, did you compute the reduction in economic efficiency that results from the statutory restrictions on institutional cost recovery from the preferred subclasses? If so, please provide an estimate of the reduction in consumer surplus from these restrictions. If not, please explain why not.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

RESPONSE:

a. Confirmed.

b. The statutory restrictions on institutional cost recovery could be included in the "other considerations beyond economic efficiency." However, the Ramsey prices presented in my testimony were consistent with the requirements of the Revenue Forgone Reform Act (RFRA) and, as such, the economic cost of these statutory restrictions was not analyzed in my testimony.

c. The statutory restrictions on institutional cost recovery from the preferred subclasses reduce economic efficiency to the extent that the prices of the preferred subclasses based on the constraints of the RFRA are different from the Ramsey prices for the preferred subclasses (based on their price elasticities of demand).

d. I did not have occasion to calculate Ramsey prices for the preferred subclasses independent of the constraints of the RFRA. The constraints of the RFRA are congressionally mandated and are not subject to the discretion of the Postal Service or the Postal Rate Commission. Therefore, these constraints were included in the calculation of the Ramsey prices presented in my testimony so as to provide both the Postal Service and the Postal Rate Commission with a rate schedule that was consistent with the break-even requirement and with the RFRA.

I did not estimate the reduction in consumer surplus resulting from the restrictions on the institutional cost recovery from the preferred subclasses.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

NAA/USPS-T31-2. Please refer to the discussion in Chapter 1 of your testimony regarding the burdens on consumers of products A and B. Please confirm that in your calculation of burdens, you do not consider the benefits that consumers may receive from purchasing substitute products offered by other firms. If you cannot confirm, please explain.

Not confirmed. The demand curves for products A and B show the quantity demanded at different prices, holding all other factors constant. Included in these other factors are, among other things, the prices and consumer benefits of substitute and complement products. Therefore, the existence of substitutes, and the benefits that consumers may receive from purchasing substitutes, is imbedded in the demand curve for a product.

In terms of my analysis, suppose product A has a substitute product C. The loss of consumer surplus from an increase in the price of product A consists of two areas. One area is the additional expenditures that consumers make to purchase goods at the higher price. The fact that some consumers continue to buy product A after its price is raised means that product C is not a perfect substitute for product A. For those consumers who continue to buy product A, the higher price imposes a loss of consumer surplus equal to the price increase multiplied by the number of units consumed at the higher price, as measured by the demand curve.

The second area of the loss of consumer surplus is the lost net value of those units not consumed due to the higher price. With respect to this second area, suppose there is a consumer who is virtually indifferent to consuming product A at a price of \$10 or consuming product C. By this I mean that the consumer is willing to pay \$10 for product A, but if the price were raised to \$10.01, the consumer would purchase product C instead. If the price of product A were increased to \$10.01, the loss of consumer surplus by this consumer would be virtually zero. The loss is equal

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

to the difference between what the consumer was willing to pay (something between \$10.00 and \$10.01) and the price actually paid (\$10.00). The point is, to the extent that a substitute product exists, some consumers may be able to easily switch from consuming product A to consuming product C if there were an increase in the price of product A. This easy substitution of product C for product A is part of the demand curve for product A, which shows that even a very small increase in the price of A (from, say, \$10.00 to \$10.01) leads to a decline in consumption of product A.

Thus, the hypothetical increase in the price of product A from \$10.00 to \$10.01 imposes a one cent per unit loss of consumer surplus by those consumers who continue to purchase product A and virtually no loss of consumer surplus from consumers who no longer purchase product A. The above analysis, with explicit consideration of the availability of a substitute product C, is in no way different from that presented in my testimony.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

NAA/USPS-T31-3. Please refer to your direct testimony at page 8, lines 16-17. Please provide specific definitions for each of the following terms used here: "marginal cost," "per piece volume variable cost" and "essentially equal."

RESPONSE:

Marginal cost and volume variable cost are defined at page 17, lines 15-17 to page 18, lines 1-4: "The marginal cost of a product is defined as the change in product cost associated with a one unit increase in product volume. With respect to the Postal Service, the marginal cost of a product is derived from knowledge of the product's volume variable costs. By the methodology of Postal Service costing, product volume variable cost is equal to product marginal cost multiplied by product volume. Therefore, marginal cost is equal to volume variable cost per piece, obtained by dividing product volume variable costs by product volume."

"Essentially equal" means that any difference that might exist between the technical definition of marginal cost and the Postal Service measure of volume variable cost per piece has no discernible effect on the calculation of Ramsey prices.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

NAA/USPS-T31-4. Please refer to page 18, lines 3-4, where you state: "marginal cost is equal to volume variable cost per piece." Please also refer to page 38, lines 6-7, where you state: "The Postal Service costing methodology provides a cost estimate that is similar to marginal cost, known as volume variable cost." Have you performed any independent (that is, your own) analysis of Postal Service costing methodologies to satisfy yourself that volume variable costs are in fact equal to marginal costs, or to what extent they may differ? If so, please provide documentation of this analysis.

RESPONSE:

I have not independently analyzed the Postal Service costing methodologies.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

NAA/USPS-T31-5. Was Library Reference H-164 prepared by you or under your direction?

RESPONSE:

Yes.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

NAA/USPS-T31-6. Please refer to page 39, lines 1-8. You increase the price of Express Mail and Registry mail to ensure that the revenues from these products cover their incremental costs.

- a. Does economic efficiency require that the revenues from each subclass recover the incremental costs of the subclass? Please explain why or why not.
- b. If your answer to part (a) is in any way affirmative, please explain why unconstrained Ramsey pricing products an economically inefficient result and identify the theoretical flaw in unconstrained Ramsey pricing.

RESPONSE:

a. If competing firms exist or entry by such firms is possible, then economic efficiency requires that prices be set at a level that covers incremental costs. If prices are below incremental costs for some product, economically efficient entry could be discouraged.

b. There is no theoretical flaw with Ramsey pricing. In theory, Ramsey price calculations could include as part of the social welfare maximization problem, the possibility of entry or exit by competing firms. Under those conditions, the Ramsey price would satisfy the incremental cost test.

In my testimony, in the two cases where the Ramsey price did not cover incremental costs (Express Mail and Registry mail), I set the price at a level sufficient to cover incremental costs. This approach is suggested by Ronald R. Braeutigam in "Optimal Policies for Natural Monopolies," Chapter 23 of Handbook of Industrial Organization, Volume II, Edited by R. Schmalensee and R.D. Willig, Elsevier Science Publishers, 1989. Braeutigam (at pages 1341-42) recommends "modifying the second-best Ramsey optimal formulation by appending additional constraints to

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

ensure that the resulting prices are as efficient as possible while both being subsidy-free and allowing the firm to break-even. These additional constraints would contribute to dynamic efficiency by guiding prices to send appropriate signals on entry."

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

NAA/USPS-T31-7. Please refer to equation (1) at page 17 of your direct testimony.

- a. Can the Ramsey pricing formula result in rates above the stand-alone cost of a product? Please explain why or why not.
- b. Does economic efficiency require that rates be below the stand-alone cost for each subclass? Please explain your response fully.
- c. If your answer to part (b) is in any way affirmative, please explain why unconstrained Ramsey pricing produces an economically inefficient result and identify the theoretical flaw in unconstrained Ramsey pricing.

a through c. Economic efficiency requires that rates be set no greater than stand-alone costs. Prices above stand-alone cost can encourage inefficient entry. A Ramsey pricing model could be developed to consider the social costs of inefficient entry. However, as explained in my response to NAA/USPS-T31-9, if prices of every product are set at a level necessary to cover incremental costs, then no product price should be above its stand-alone cost.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

NAA/USPS-T31-8. Please provide all analyses performed by the Postal Service or its contractors that estimate the stand-alone costs for any subclass. If no such analysis has been performed, please state whether the Postal Service has any plans to perform such an analysis.

RESPONSE:

I am not aware of any analysis of stand-alone costs for any subclass of mail.

It is my understanding that the Postal Service has no plans to perform such an analysis.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

NAA/USPS-T31-9. Are the "efficient" prices presented in your testimony consistent with the principle that prices be set below stand-alone cost? Please explain your response.

RESPONSE:

Yes. The stand-alone cost of a mail product (or group of products) is the cost that would result if only that mail product (or group of products) were supplied. Stand-alone cost is closely related to incremental cost. For a system with  $n$  products, total costs are equal to the incremental cost of the  $n$ th product plus the stand-alone costs of the remaining  $n-1$  products. Furthermore, if one product were priced above its stand-alone costs, the other products would (as a group) be priced below their incremental cost. Since each product is priced above its incremental cost, it can be concluded that no product is priced below its stand-alone cost.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

NAA/USPS-T31-10. Please refer to pages 47-8 of your direct testimony. Please explain fully why you have opted to impose the price constraints described at these pages.

RESPONSE:

The constraints on the mark-ups of the preferred subclasses, equal to one-half the mark-up of the corresponding regular subclass, were imposed because it is a requirement of the Revenue Forgone Reform Act that any implemented postal rate schedule must satisfy.

The constraints on the prices of Express Mail and Registry mail to cover these products' incremental costs were imposed because prices below the level necessary to cover incremental costs could result in cross-subsidization, which is forbidden by the rules of postal rate-making.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

NAA/USPS-T31-11. Please provide the comparison shown in Summary Tables 1 and 2 based on unconstrained Ramsey pricing.

RESPONSE:

As explained in my response to sub-part (d) of NAA/USPS-T31-1, I did not calculate Ramsey prices independent of the constraints imposed on the mark-ups of the preferred subclasses.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

NAA/USPS-T31-12. Please provide the comparison shown in Summary Tables 1 and 2 based on Ramsey pricing constrained only by the incremental cost test but not the statutory requirements that limit the institutional cost recoveries from the preferred subclasses.

RESPONSE:

As explained in my response to sub-part (d) of NAA/USPS-T31-1, I did not calculate Ramsey prices independent of the constraints imposed on the mark-ups of the preferred subclasses.

**RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA**

**NAA/USPS-T31-13. Please provide versions of Summary Tables 1 and 2 that compare Ramsey prices to the after-rates prices proposed by the Postal Service in this proceeding.**

**RESPONSE:**

The accompanying Tables 1A and 2A present a comparison between Ramsey prices and the after-rates prices proposed by the Postal Service in this proceeding. Prices are expressed as average revenue per piece, as was done in my testimony. Note that the Postal Service and the Ramsey prices are not entirely comparable. The Postal Service proposal includes a number of initiatives that affect volumes, revenues, and costs, that were not included as part of my Ramsey analysis.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

**SUMMARY TABLE 1A**  
**Price Comparison**

Mail Product	After-Rates Price (based on R94-1)	After-Rates Price (USPS Proposed)	After-Rates Price (Ramsey Pricing)
First-Class Letters	\$0.3488	\$0.3518	\$0.3551
First-Class Cards	\$0.1612	\$0.1972	\$0.1420
Priority Mail	\$4.4053	\$3.7770	\$2.4124
Express Mail	\$14.0132	\$13.4120	\$11.2947
Periodicals In-County	\$0.1001	\$0.0928	\$0.1416
Periodicals Nonprofit	\$0.1704	\$0.1585	\$0.2409
Periodicals Classroom	\$0.2991	\$0.2168	\$0.4229
Periodicals Regular	\$0.2694	\$0.2363	\$0.4724
Standard Single Piece	\$1.4731	N.A.	\$1.6402
Standard Regular	\$0.1903	\$0.2132	\$0.2575
Standard ECR	\$0.1630	\$0.1500	\$0.0802
Standard Nonprofit	\$0.1248	\$0.1281	\$0.1498
Standard NP ECR	\$0.0866	\$0.0783	\$0.0554
Parcel Post	\$3.6199	\$3.3364	\$4.1123
Bound Printed Matter	\$0.8816	\$0.9128	\$0.8435

**RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA**

Special Rate	\$1.3657	\$1.7572	\$1.7775
Library Rate	\$1.7643	\$1.8249	\$2.0383
Registry	\$8.2301	\$8.5808	\$8.3269
Insurance	\$2.0851	\$2.4331	\$2.9067
Certified	\$2.1812	\$1.4993	\$1.7266
COD	\$4.5288	\$4.6381	\$9.3372
Money Orders	\$0.7171	\$1.0136	\$0.8368

**SUMMARY TABLE 2A  
Mark-Up Comparison**

Mail Product	USPS Proposed Mark-up	USPS Proposed Mark-up Index	Ramsey Mark-up	Ramsey Mark-up Index
First-Class Letters	101.38	1.276	103.29	1.328
First-Class Cards	82.34	1.037	31.34	0.403
Priority Mail	97.21	1.224	25.96	0.334
Express Mail	103.89	1.308	71.70	0.922
Periodicals In-County	2.74	0.035	56.81	0.730
Periodicals Nonprofit	3.21	0.040	56.81	0.730
Periodicals Classroom	-19.72	-0.247	56.81	0.730
Periodicals Regular	6.84	0.086	113.62	1.460
Standard Single Piece	N.A.	N.A.	18.04	0.232
Standard Regular	47.85	0.602	78.56	1.010

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

Standard ECR	124.69	1.570	20.12	0.259
Standard Nonprofit	19.07	0.240	39.28	0.505
Standard NP ECR	55.61	0.700	10.05	0.129
Parcel Post	1.41	0.018	25.00	0.321
Bound Printed Matter	54.22	0.683	42.52	0.547
Special Rate	36.58	0.461	38.16	0.491
Library Rate	6.62	0.083	19.08	0.245
Registry	66.32	0.835	61.40	0.789
Insurance	78.81	0.992	113.62	1.460
Certified	33.29	0.419	53.49	0.688
COD	6.11	0.077	113.62	1.460
Money Orders	62.71	0.790	34.32	0.441
Overall	79.42	1.000	77.80	1.000

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

NAA/USPS-T31-14. Regarding your use of "marginal cost" for developing Ramsey prices, please indicate whether short-run or long-run marginal cost is more economically efficient. Please explain your response and identify or provide all supporting theoretical literature.

RESPONSE:

Economists generally define long-run marginal cost as marginal cost during a period in which all factors of production are variable, whereas short-run marginal cost is defined as marginal cost during a period in which at least one factor of production is fixed. With respect to my calculation of Ramsey prices, the relevant marginal costs are the marginal costs expected to prevail during the period in which the Ramsey prices would exist. The Ramsey prices were calculated for a 1998 Test Year using projected 1998 volume variable (marginal costs) costs per piece. As such, these are the costs that should be used to calculate the economically efficient prices.

I cannot say with certainty whether Postal Service Test Year costs more closely fit the standard economic definitions of short-run or long-run marginal cost. However, as stated above, that technical distinction is immaterial to my work. Please see the R87-1 testimony of William J. Baumol (USPS-T-3) for a discussion of short-run and long-run marginal costs.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

NAA/USPS-T31-15. Please refer to page 2, line 13 of your direct testimony.

- a. Please define "economic efficiency."
- b. Please list all the assumptions that are necessary for Ramsey prices to be economically efficient.
- c. Consider a two-part tariff with a fixed prices for each service that is independent of the volume and a volumetric component. Is it your contention that Ramsey pricing is more efficient that a two-part tariff pricing scheme, wherein the volumetric component of the tariff is set at marginal cost? Please explain you response fully, and identify texts or other literature that support your opinion.

RESPONSE:

a through c. There are a number of different definitions of economic efficiency, depending on the conditions under which efficiency is to be obtained. Pareto-optimal efficiency exists if it is impossible to make one person better off without making someone else worse off. Pareto-optimality occurs when the sum of producer and consumer surplus is maximized, a result that occurs under perfect competition with price equal to marginal cost.

Another concept of economic efficiency is relevant when comparing two possible states of the world. One situation is more economically efficient (even if it is not Pareto-optimal) if the sum of the producer and consumer surplus in that situation exceeds the sum of producer and consumer surplus in the other, alternative, situation.

Ramsey pricing is often referred to as second-best pricing because the conditions under which marginal cost pricing will occur do not exist. Specifically, Ramsey pricing applies when there exists a monopoly firm, resulting either from economies of scale which make it less costly for a single firm to produce the

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

demanded level of output, or because of legal restrictions on entry, or both. Ramsey pricing can also apply for the case of a multi-product firm in which certain costs of operation can not be assigned to a specific product, but the total cost of producing the combined set of products is less than the sum of the costs of producing each product independently. This latter condition is commonly referred to as economies of scope.

Under conditions of economies of scale, economies of scope, or both, marginal costs of production can be less than average cost of production. In this case, marginal cost pricing will produce a loss. The most efficient pricing strategy under these conditions is still marginal cost pricing, with the resulting loss funded from a non-distortionary lump-sum tax. The tax would have to be unrelated to income (or else it would affect marginal tax rates), unrelated to volume of mail sent by an individual (or else it would affect the marginal cost borne by mailers to send mail). The tax would also have to be unrelated to whether an individual chooses to use the service. Otherwise, individuals could opt out of the system and the tax revenues would not be sufficient to cover the loss resulting from marginal cost pricing.

An alternative to the above approach is Ramsey pricing. Ramsey pricing maximizes consumer and producer surplus subject to a constraint on the firm's profits or losses, usually, but not necessarily, defined as a break-even constraint in which total costs equal total revenues. In theory, however, Ramsey pricing is not the most efficient method to establish prices when marginal costs are less than average cost, but in practice the imposition of a lump-sum non-distortionary tax is not possible.

The two-part tariff scheme mentioned in this interrogatory carries with it some of the conditions of the first-best solution described above. However, the fixed price

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

tariff described in this interrogatory is not imposed regardless of whether an individual uses the mail service. The level of the fixed price would have to be determined, and if some mailers chose not to pay the fixed price (and send no mail) the revenues from the fixed charge could be insufficient to satisfy the break-even constraint.

To ensure that no mailers opted out of the system, the fixed price charged a mailer would have to be set at a level less than the total consumer surplus earned by that mailer. This would probably require some form of price discrimination in which different mailers pay different fixed prices, while all mailers pay marginal cost per piece. An obvious drawback of this pricing scheme, however, is the presence of arbitrage opportunities. A single mailer could act as a clearinghouse for mail, collecting mail from individuals and then re-mailing it through the Postal Service at marginal cost price.

Another important consideration relevant to your hypothetical is that for a multi-product firm such as the Postal Service, the level of institutional cost recovery for each mail product would have to be determined. If the per piece price of each product were set at product marginal cost, the institutional cost could be generated by imposing separate non-volume related fixed charges on users of each mail service, ensuring that the fixed charge for any mailer and for any service is not so large as to cause the mailer to not use the service.

In theory, a properly constructed two-part tariff could be more efficient than Ramsey pricing. It does not appear, however, that such a pricing scheme is practical for the Postal Service.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

NAA/USPS-T31-16. Please refer to your discussion of cross-price elasticities at pages 28-30.

- a. Assume that cross-price elasticities exist for two subclasses of mail, but cannot be efficiently estimated because of multicollinearity, insufficient data, or other statistical problems. Under this assumption, is it economically efficient to develop Ramsey prices assuming that the cross-price elasticity terms are zero? Please explain your response.
- b. If the cross-price elasticities are assumed to be zero when in actual fact there is a reasonably high cross-price elasticity between two subclasses of mail, what effect would this assumption have on estimated Ramsey prices compared to the actual economically efficient prices? Please explain fully.
- c. Please confirm that you assumed zero cross-price elasticities of demand between Standard A Regular mail and Standard A ECR mail. If you cannot confirm, please explain what you assumed about the cross-price elasticity of demand between these two subclasses.

RESPONSE:

- a. It is possible that small cross-price elasticities exist between various postal products in addition to the cross-price effects estimated from the econometric demand equations. Ideally, one would include any cross-elasticities, no matter how small, in the calculation of the Ramsey prices. Nonetheless, the absence of a small cross-price elasticity from the Ramsey price calculations would not have a meaningful affect on the efficiency of the Ramsey prices and, in fact, assuming that a small or nonexistent cross-elasticity is zero will probably lead to a more efficient set of prices than assigning an arbitrary positive value to the cross-elasticity.
- b. I do not believe that in actual fact there is a reasonably high cross-elasticity between any two mail subclasses, other than those included in my Ramsey price calculations. Regarding your hypothetical, even if there were a reasonably high

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

cross-elasticity between two subclasses, the effect on the Ramsey prices of these two subclasses would likely be small. The multicollinearity of real postal prices means that the estimated sum of the own-price and cross-price elasticity is robust.

Therefore, the inclusion of cross-price elasticities in the demand equations for two subclasses would probably lead to increases in the estimated own-price elasticities of each of the two subclasses. The cross-price elasticity would produce a higher Ramsey price, but the higher own-price elasticity would produce a lower Ramsey price, so that the two effects largely offset each other.

c. I made no assumption about the cross-elasticity of demand between Standard A Regular mail and Standard A ECR mail. The elasticities used for these subclasses were obtained from the testimony of Thomas Thress (USPS-T-7). He did not include a cross-price elasticity between Standard A Regular and ECR mail.

**RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA**

NAA/USPS-T31-17. Please refer to the direct testimony of Postal Service witness Donald J. O'Hara (USPS-T-30), page 36, lines 4-7 where he states "...a lower coverage for ECR would have made it more difficult to design rates so that the Automation 5-digit rate in Standard Regular was below the ECR basic rate, encouraging the movement of ECR basic letters into the automation mailstream." Please also refer to the direct testimony of Postal Service witness Joseph D. Moeller (USPS-T-36), page 28, lines 8-13 where he states "...the Postal Service is proposing rates that, by virtue of the zero percent pass-through described above, would encourage letter mailings with this density to be entered instead as Automation Enhanced Carrier Route or 5-digit Automation letters. The result of this relationship is an expected migration of 3.3 billion letters from Basic ECR letter rate to 5-digit automation." (footnote omitted).

- a. In light of the above two statements, please state whether in your opinion, the assumption of a zero cross-price elasticity between Standard A Regular mail and Standard A ECR mail is reasonable. Please explain fully.
- b. Please confirm that, under your Ramsey prices shown in Table 1, the average per piece rate for Standard A Regular mail would increase by 6.72 cents per piece or approximately 35 percent relative to the R94-1 after-rates price. If you cannot confirm, please explain your response and provide the correct figures.
- c. Please confirm that, under your Ramsey prices shown in Table 1, the average per piece rate for Standard A ECR mail would decrease by 8.28 cents per piece or approximately 51 percent relative to the R94-1 after-rates price. If you cannot confirm, please explain your response and provide the correct figures.
- d. Please confirm that, under your Ramsey prices shown in Table 1, the average per piece rate for Standard A Regular mail would be more than three times greater than that for Standard A ECR mail.
- e. Please confirm that you have assumed that the price changes that would result from imposing Ramsey pricing would cause no shift in mail volume between Standard A Regular and Standard A ECR.
- f. Please explain how the Ramsey prices of these two subclasses would change if a significant positive cross-price elasticity existed between these two subclasses of mail.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

RESPONSE:

a. As stated in my response to sub-part (c) of NAA/USPS-T31-16, I made no assumption about price elasticities of postal products. With respect to the migration of Basic ECR mail to 5-digit automation, my Ramsey price calculations were made at the subclass level and I did not consider the pricing of individual mail categories of Standard Regular or ECR mail as discussed in your interrogatory. However, the migration of mail between ECR and Regular mail referred to in this interrogatory occurs because the price of one category of Standard Regular is set *below* the price of one category of Standard ECR. Given that the Ramsey price of Standard Regular mail is considerably *above* the Ramsey price of Standard ECR, it is highly unlikely that this kind of pricing relationship would exist under Ramsey pricing. As such, the migration discussed above is not relevant to the my testimony.

b. Table 1 shows that the Ramsey price of Standard A Regular mail is 6.72 cents, or 35 percent, more than the price of Standard A Regular mail based on the relative mark-ups from the R94-1 case applied to Test Year costs for the present case. The Ramsey price of this product is 4.79 cents, or 23 percent, more than the before-rates price, which resulted from the R94-1 case.

c. Table 1 shows that the Ramsey price of Standard A Regular ECR mail is 8.28 cents, or 51 percent, less than the price of Standard A Regular ECR mail based on the relative mark-ups from the R94-1 case applied to Test Year costs for the present case. The Ramsey price of this product is 6.67 cents, or 45 percent, less than the before-rates price, which resulted from the R94-1 case.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

d. Confirmed.

e. Confirmed.

f. If a significant positive cross-price elasticity existed between Standard A Regular and ECR mail, it is likely that the impact on the Ramsey prices would be small, as explained in my response to sub-part (b) of NAA/USPS-T31-16.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

NAA/USPS-T31-18. Please refer to your direct testimony at page 62, lines 7-19.

- a. Did you consider developing a Ramsey price for all periodicals mail in aggregate and then developing rates for each subclass that met the statutory constraints regarding the relative cost coverages of the preferred subclasses within periodicals mail? If not, please explain why you did not consider this approach. If yes, please explain why you did not adopt this approach.
- b. If you developed Ramsey prices as suggested in part (a), what would have been the change in the Ramsey prices for each subclass of periodical mail?

RESPONSE:

a. I did consider developing a Ramsey price for all Periodicals mail in aggregate and then developing rates for each subclass that met the statutory constraints regarding the relative cost coverages of the preferred subclasses within Periodicals mail. I did not adopt this approach for two reasons. First, the calculation of the volume forecasts for these mail categories would have required an additional iterative procedure as part of the Ramsey pricing computer program. Second, an estimate of the prices following this approach revealed that the resulting prices were quite close to the prices presented in my testimony, and I concluded that the additional complexity of including this procedure was not worthwhile.

b. A formal calculation of the prices as suggested in sub-part (a) was never done. However, I did make an estimate of the resulting prices.

First, an aggregate own-price elasticity for all Periodicals mail was calculated, using the before-rates Test Year volumes as weights. Table A below shows that the estimated aggregate own-price elasticity for Periodicals mail is  $-0.200436$ , equal to  $-2,070.780/10,331.366$ .

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

**Table A**  
**Weighted Average Aggregate Own-Price Elasticity for Periodicals Mail**

Subclass	Before-Rates Volume (millions of pieces)	Own-Price Elasticity	Volume • elasticity
In-county	910.590	-0.529948	-482.565
Classroom	51.343	-1.178481	-60.507
Nonprofit	2,191.116	-0.227917	-499.393
Regular	7,178.317	-0.143253	-1,028.315
Totals	10,331.366	-0.200436	-2,070.780

The second step is to calculate the mark-up for Periodicals Mail as a whole based on the aggregate elasticity. This calculation was never formally made as part of the complete Ramsey pricing program. However, an estimate of the mark-up can be obtained based on the Ramsey k value obtained from the formal Ramsey price calculations. The Ramsey formula, without cross-elasticities, is presented at page 30, line 9, of my direct testimony and re-printed here for convenience.

$$P/M = E/(E + k)$$

The Ramsey k value is equal to 0.1. Substituting an own-price elasticity of about -0.2 into the above equation yields the result that aggregate mark-up for Periodicals mail [which is equal to (P-M)/M] is approximately 100 percent.

The third step is to assign separate mark-ups to the Regular and Preferred subclasses of Periodicals mail that yield a mark-up for the Preferred subclasses that is one-half the mark-up for the Regular subclass while at the same time yielding a weighted average mark-up of 100 percent. Mathematically, this is equivalent to

$$MU_R \cdot W_R + 0.5 \cdot MU_R \cdot W_P = 100 \text{ percent}$$

where  $MU_R$  is the mark-up for the Regular subclass,  $W_R$  is the volume weight of the

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

Regular subclass and  $W_p$  is the volume weight of the preferred subclass. Using the before-rates volumes as weights, the resulting mark-ups for the Regular and Preferred subclasses are approximately 117.50 percent and 58.75 percent. The Ramsey mark-ups presented in my testimony for the Regular and Preferred subclasses are 113.62 percent and 56.81 percent, respectively, virtually identical to the mark-ups that would have resulted from the more complex approach discussed in this interrogatory.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

NAA/USPS-T31-19. Please refer to your direct testimony at page 64, lines 1-10, regarding the imposition of the preferred status constraints on Standard A Nonprofit and Standard A Nonprofit ECR mail. Please contrast the economic efficiency of your method with an alternative in which (1) the Ramsey pricing parameters are developed for all Standard A Regular (nonprofit and other) and all Standard A ECR (nonprofit and other) in aggregate, (2) an aggregate Ramsey price markup is developed for each combined group, and (3) rates are developed for each subclass within the group that satisfy the statutory constraints regarding the relative cost coverages of the preferred subclasses.

RESPONSE:

The economic efficiency of the two approaches depends on which approach yields a higher level of consumer surplus. As discussed in my response to NAA/USPS-T31-18, I did not formally calculate Ramsey prices as suggested above. Based on preliminary work, I found that the approach taken in my testimony and the approach suggested above yielded results that were quite similar.

Regarding Standard A mail, the approach taken in my testimony was to calculate the Ramsey mark-up for the non-preferred subclass based on its elasticities of demand and then calculate the preferred subclass mark-up that satisfies the constraints of the Revenue Forgone Reform Act (RFRA). The advantage of this approach, in terms of economic efficiency, is that it establishes the efficient price for the non-preferred subclass which, in Standard Mail, accounts for 77 percent of the total volume of non-ECR mail and 91 percent of the total volume of ECR mail. The disadvantage of this approach, again in terms of economic efficiency, is that the prices of the preferred subclasses are not their Ramsey prices.

The disadvantage of the approach suggested in this interrogatory is that neither the non-preferred or preferred subclasses have their exact Ramsey price. The advantage of this approach is that the elasticity of the preferred subclasses are

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

included to some degree in the calculation of the Ramsey prices.

As stated earlier, the approach that is more economically efficient is the one that yields a higher consumer surplus, across all mail products and not just across the subclasses of Standard A. Based on my preliminary work, I suspect that the actual difference in efficiency between the approaches is small.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

NAA/USPS-T31-20. Please refer to your direct testimony at page 72 et seq. Regarding efficient component pricing (ECP). In your opinion, does ECP require that worksharing discounts be based on short-run marginal cost or average incremental costs? Please explain your response fully.

**RESPONSE:**

ECP should be based on marginal costs, so that at the margin, the lowest cost provider of a service or activity is encouraged to perform that task.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

5034

NAA/USPS-T31-21. Please refer to your testimony at page 75, lines 6 to 11, regarding efficient component pricing (ECP).

- a. Please describe the specific economic conditions under which ECP is economically efficient.
- b. If worksharing was not a viable option for many First-Class mailers, would ECP or Ramsey pricing be the most efficient method for determining the relative rates for presort and nonpresort mail? Please explain your response. If no definite answer exists, please detail the information and analysis which would be necessary to answer the question.
- c. If worksharing is a viable option for all First-Class mailers, would ECP or Ramsey pricing be the most efficient method for determining the relative rates for presort and nonpresort mail? Please explain your response. If no definite answer exists, please detail the information and analysis which would be necessary to answer the question.
- d. If all First-Class letter mailers could legally choose to send their mail via Standard A service, would ECP or Ramsey pricing be the most efficient method for determining the relative rates for First-Class and Standard A letters? Please explain your response. If no definite answer exists, please detail the information and analysis which would be necessary to answer the question.
- e. If all First-Class letter mailers could legally allowed to use Standard A service, do you believe that mailers would make a tradeoff between the additional cost of First-Class service, and the additional value they earn by receiving a presumably higher level of service? Please explain fully any negative response.
- f. If some or all mailers make the tradeoff described in part (e) above, is ECP the most efficient method for setting the relative rates for the two services? Please explain your response.
- g. If there exists a very high cross-price elasticity between Standard A Regular mail and Standard A ECR mail, would ECP or Ramsey pricing be the most efficient method for determining the relative rates for Standard A Regular and Standard A ECR mail? Please explain your response. If no definite answer exists, please detail the information and analysis which would be necessary to answer the question.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

RESPONSE:

a. Efficient Component Pricing (ECP) minimizes the combined cost of mailers and the Postal Service of providing mail service. It applies when either the mailer or the Postal Service can perform an activity related to the provision of mail service. For example, mailers can presort their mailing or the Postal Service can sort the mailing. The principle of ECP is that the party that can perform the task at the lowest cost should be encouraged to do so. This condition can occur if the discount for presorting is set equal to the difference between the Postal Service's cost of nonpresorted and presorted mail. Please see my testimony at pages 72 - 75 for an extended discussion of how Efficient Component Pricing encourages cost minimization.

With respect to economic efficiency, cost minimization is not a sufficient condition to ensure economic efficiency. One situation in which ECP is economically efficient is when marginal cost pricing exists. ECP minimizes marginal cost and therefore maximizes the efficiency of pricing at marginal cost. If marginal cost pricing is not a viable option, as in the case of the Postal Service, then ECP is not necessarily economically efficient.

b. Ramsey pricing of postal products is never less efficient than ECP. Ramsey pricing maximizes the sum of consumer and producer surplus subject to a break-even constraint. ECP minimizes the total combined cost of mailers and the Postal Service for the provision of mail services. While cost minimization is important, cost minimization alone will not necessarily lead to the most efficient set of prices. It can be the case that a set of prices will not minimize costs but will still maximize

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

*consumer and producer surplus. With respect to postal pricing, differences in the elasticities of demand of the two products subject to worksharing can lead to the result that the more efficient Ramsey prices will not be exactly equal to the prices obtained from simple application of ECP. This would occur if the gains in terms of additional consumer surplus outweigh the higher costs resulting from non-ECP pricing.*

c. Again, as stated in sub-part (b), Ramsey pricing is never less efficient than ECP. It may be the case, however, that if all First-Class mailers could use worksharing, the demand system for letters would be such that the Ramsey efficient prices would be consistent with ECP.

d. In terms of economic efficiency, Ramsey pricing should be used to establish the rates for First-Class letters and Standard A mail. The decision to use First-Class or Standard A mail does not comply with the conditions for use of ECP as stated in sub-part (a) of this interrogatory. The Postal Service cost for a Standard A mail piece with a given level of worksharing (e.g., Automation 5-digit letters) is lower than the cost of a First-Class letter having the same level of worksharing. It is my presumption that the lower cost of Standard A mail is a result of, among other things, its deferred delivery and the absence of free forwarding. These activities are not activities that mailers can perform as part of their worksharing.

e. Yes, mailers could be expected to make a trade-off between the additional cost of First-Class service, and the additional value they earn by receiving a presumably higher level of service. Under current conditions, those mailers who can choose

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF NAA

between sending mail First-Class or Standard A make the above trade-off.

f. For the reasons stated in sub-part (d), Ramsey pricing should be used to establish the economically efficient prices for First-Class letters and Standard A mail. The trade-off between the higher price of First-Class service and the additional value of First-Class service is measured by the cross-price elasticity between First-Class letters and Standard A Regular mail. This cross-elasticity is included in the Ramsey price calculations presented in my testimony.

g. If a cross-price elasticity existed between Standard A Regular and ECR mail, Ramsey pricing should be used to establish the economically efficient rates of these two subclasses. Ramsey price calculations include the impact of own- and cross-price elasticities. ECP considerations could be included in the Ramsey price calculations, as was done in my testimony in the separate pricing of single-piece and workshared letters. That is, to the extent that some mailers might be making a decision to send Standard A Regular or ECR mail based on worksharing discounts, ECP considerations would be relevant. However, given that Standard A Regular and ECR mail have clear differences in their price elasticities of demand, Ramsey analysis should be undertaken to determine the most efficient prices for these two subclasses. The demand elasticity differences could easily give rise to the situation in which the efficient prices for Regular and ECR mail (those that maximize consumer surplus subject to a break-even constraint) are not identical to those that would arise from simple application of ECP.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA

OCA/USPS-T31-1. Please refer to your direct testimony. At page 70, Table 13 shows a net change in consumer surplus from Ramsey pricing of \$1.023 billion.

- a. Confirm that your analysis measures consumer surplus in dollars across all classes.
- b. If confirmed, would it be appropriate to say that for purposes of your analysis, one dollar of positive consumer surplus to the mailer of a First-Class letter is equal to one dollar of positive consumer surplus to a mailer of Standard Enhanced Carrier Route ("ECR") mail?
- c. If (b) is confirmed, does this mean that your analysis treats consumer surplus homogeneously, i.e., that consumer surplus (of, say, one dollar) has the same value to all classes of mailers?

RESPONSE:

- a. Confirmed.
- b. Yes.
- c. Yes.

**RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA**

OCA/USPS-T31-2. Table 13 shows substantial reductions in consumer surplus under Ramsey pricing for mailers of First-Class letters, Periodicals Nonprofit, Periodicals Regular, Standard Regular, and Standard Nonprofit Mail, and substantial gains in consumer surplus for mailers of Priority Mail and Standard ECR Mail.

- a. To what extent were changes in the distribution of income and costs between households and businesses taken into account in your analysis?
  - (i) For example, did you evaluate the effect on households that would occur if households had less income to spend?
  - (ii) Did you examine the distributional changes to determine whether the outcomes were consistent with the criteria of 39 U.S.C. 3622(b)? (You may wish to refer to pages 1-10 of the direct testimony of Donald J. O'Hara, which discusses these criteria.)
  
- b. To what extent were changes in the distribution of income and costs between non-profit institutions and businesses taken into account in your analysis?
  - (i) For example, did you evaluate the effect on non-profit institutions that would occur if households had less income to spend?
  - (ii) Did you examine the distributional changes to determine whether the outcomes were consistent with the criteria of 39 U.S.C. 3622(b)?
  
- c. To what extent were changes in the distribution of income and costs between publishers of periodicals and other businesses taken into account in your analysis?
  - (i) For example, did you evaluate the effect on such publishers that would occur if households had less income to spend?
  - (ii) Did you examine the distributional changes to determine whether the outcomes were consistent with the criteria of 39 U.S.C. 3622(b)?
  
- d. Do you regard Ramsey pricing of postal services and products to be fully compatible with the criteria of 39 U.S.C. 3622(b)? Please explain fully your answer.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA

RESPONSE:

a (i). I do not believe that households would have less money to spend if Ramsey pricing were adopted. It may be the case that households would spend more on postage under Ramsey pricing, although some products commonly used by households, e.g., First-Class cards and Priority Mail, have lower postage rates under Ramsey pricing. Nonetheless, it could be expected that declines in the postage rates for mail sent predominantly by businesses would be reflected in a decline in the prices of products sold by those businesses. For example, households as consumers pay the costs of mailing a catalog in the form of higher prices for the advertised products. To the extent that Ramsey pricing decreases the costs of sending catalogs by mail, it seems reasonable to expect that the prices of the products would decline.

Furthermore, household income is a function of wages and investment earnings. If businesses experience declines in their costs due to Ramsey pricing, it seems reasonable to expect that the increase in business efficiency would lead to higher wages, increased employment, and/or greater investment earnings. Since ultimately, all revenues and costs are borne by households, I would say that Ramsey pricing *increases* the real income of households by approximately one billion dollars per year.

a (ii). Since my analysis is for total consumer surplus in the economy, changes in the distribution of income and costs were not considered. For a discussion of the consistency of Ramsey pricing with the criteria of 39 U.S.C. 3622(b), please see my response to sub-part (d) of this interrogatory.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA

b (i). I did not consider the effects of higher nonprofit rates on nonprofit institutions other than my estimate of the resulting change in consumer surplus. To the extent that some individuals or groups are harmed by Ramsey pricing, the rest of the economy is helped and the net gain to society is on the order of one billion dollars.

b(ii). Since my analysis is for total consumer surplus in the economy, changes in the distribution of income and costs were not considered. For a discussion of the consistency of Ramsey pricing with the criteria of 39 U.S.C. 3622(b), please see my response to sub-part (d) of this interrogatory.

c (i). I did not consider the effects of higher Periodicals rates on publishers other than my estimate of the resulting decline in consumer surplus. To the extent that some individuals or groups are harmed by Ramsey pricing, the rest of the economy is helped and the net gain to society is on the order of one billion dollars. Put differently, the non-Ramsey price schedule analyzed in my testimony would have the effect of transferring about \$1.5 billion to users of Periodicals Mail at a cost to society of about \$2.5 billion, a result that cannot be justified in economic terms, though non-economic considerations could warrant a departure from Ramsey pricing.

c (ii). Since my analysis is for total consumer surplus in the economy, changes in the distribution of income and costs were not considered. For a discussion of the consistency of Ramsey pricing with the criteria of 39 U.S.C. 3622(b), please see my response to sub-part (d) of this interrogatory.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA

d. It is not the purpose of my testimony to consider whether Ramsey pricing is consistent with all the criteria of 39 U.S.C. 3622(b). Ramsey pricing may not be fully compatible with some of the criteria of 39 U.S.C. 3622(b). Ramsey pricing focuses on achieving economic efficiency (contingent on satisfying a break-even constraint) while it is my understanding that a number of the rate-making criteria discuss non-efficiency considerations. I do believe, however, that economic efficiency should be one of the factors carefully considered by the Commission in setting rate levels.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA

OCA/USPS-T31-3. Do you regard dollars spent on mailing to be equal to the value that households place on, or receive from (i.e., consumer utility) such mail? In answering this question, please refer to the following example. Assume that mailer A mails a bank statement via First-Class Mail to householder A, mailer B sends an advertising flyer via Standard ECR to the same householder, and mailer C sends a periodical using an appropriate Periodicals rate. Also assume for purposes of discussion that all three mailers expended the same amount in postage (including costs they expended on workshare). In responding to this question, please refer to the 1995 Household Diary Study, which contains references to the reactions of households to various classes of mail (e.g., Reactions to Advertising Mail By Class at III-10, Attitudes Towards and Treatment of Advertising Mail at III-24, Reaction to Third-Class Bulk Regular Mail at VI-55, etc.).

RESPONSE:

Dollars spent on mailing are not equal to the value that households place on or receive from such mail. It is important to distinguish between the value of the service provided by the Postal Service and the value to either the sender or the recipient of the item being mailed.

Before I address your hypothetical example, let us consider the case of a householder who orders \$100 worth of merchandise from a store. The householder can go to the store and pick-up the merchandise or the store can mail the merchandise to the householder using, say, Priority Mail, and include the postage cost of, say, \$4, as part of the total charge. Clearly, the value to the householder of the mailing (i.e., the merchandise) exceeds the \$4 postage cost; it is likely to exceed \$100. The value measured by the demand curve for Priority Mail is the value to the householder of having the merchandise mailed. If this value exceeds \$4, the householder will request that the store mail the merchandise. The consumer surplus for this householder is the difference between the amount he or she would have been willing to pay to have the merchandise mailed and the amount that was actually paid. If the householder were

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA

willing to pay \$5 and only had to pay \$4, the resulting consumer surplus is \$1.

The same kind of reasoning can be applied to your hypothetical examples. Suppose that the bank mailing, the advertising flyer, and the periodical mailing each cost the mailer 25 cents. Since these items were mailed, it must be the case the value of the service provided by the Postal Service must be at least 25 cents. That is the value measured by the demand curves for each of these mail products and it is from these demand curves for various postal services that my calculations of Ramsey prices and gains to consumers are based.

Consider first the bank statement. The householder may place a value of, say, five dollars on the bank statement, but the value of the bank statement, like the value of the merchandise discussed above, is not the issue. The issue is whether it is worth 25 cents for the householder to receive a statement in the mail as opposed to some other option such as having the householder pick-up the statement at the bank, mailing statements on a bi-monthly or quarterly basis, or faxing the statement to the householder's home computer.

In the case of the advertising flyer, the value of the flyer to the sender is at least as much as the total cost of the flyer, of which postage is only a portion. The value to the recipient is uncertain. My review of the materials from the Household Diary Study cited in this interrogatory indicate that most householders usually read or scan advertising mail (Table 3-10). Table 3-4 shows that about one-third of time, recipients will or may respond to advertising mail. This suggests that a substantial amount of advertising mail has value to the recipient. That value can easily exceed the postage expenditures, as in the case where a household uses a coupon for \$2 from a local pizzeria or takes advantage of a special advertised sale.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA

Finally, in the case of the periodical mailing, suppose a householder has a magazine subscription for twelve issues a year. Suppose further that the cost of this subscription is \$12, of which \$3 reflects a 25 cent postage charge for each issue. Again, the value to the householder of the magazine must be at least \$12 and greatly exceeds the postage cost.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA

OCA/USPS-T31-4. Does your analysis of consumer surplus take into account externalities? For example, suppose that consumers do not read or do not find useful "x" percent of some types of mail, which then has to be discarded. Discarding mail, it may be argued, imposes costs on the recipients of such mail, either directly (some jurisdictions charge for refuse collection on a per-piece basis) or indirectly (e.g., the municipality must spend tax dollars disposing of refuse). Please comment.

RESPONSE:

My analysis does not take into consideration externalities as they are considered to be at most of second order importance. With respect to your example above, I surmise that the marginal cost of disposing of a piece of mail is extremely small. Furthermore, the costs of disposal are largely unrelated to the percent of the mail that the reader finds "useful." Whether I read a magazine or catalog cover-to-cover or merely skim through it, the item will, in most cases, ultimately be discarded. Taking the issue one step further, there is nothing unique to the paper waste resulting from mailed materials as opposed to other types of paper waste.

Although I do not believe it to be the case, if it were true that paper waste imposed a significant external cost, the issue might better be handled by imposing a tax on paper, thereby encouraging all users to reduce waste.

**RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA**

OCA/USPS-T31-5. Please refer to page 49. You state: "In this testimony, the Ramsey prices are compared to an illustrative break-even schedule based on the Postal Rate Commission's (PRC) recommended mark-ups in R94-1, applied to 1998 Test Year costs and adjusted to satisfy the Ramsey net revenue requirement of \$25,850 million. Various tables in your testimony then use the R94-1 methodology. To fully understand the impact of adopting Ramsey pricing, however, it would seem to be necessary to have other rate schedule comparisons for evaluation.

- a. Please supply alternate tables that compare your Ramsey pricing methodology rate schedule to the rates actually proposed by the Postal Service in this proceeding.
- b. Please also supply separate tables for Docket No R90-1 (the last truly comprehensive and conventional rate increase proceeding) and Docket No. R87-1 (the case which fully developed the relative markups used as benchmarks in later rate cases). Each table should show the rates under the original Postal Service proposal, the rates under a Ramsey pricing analysis, and the rates recommended by the Commission.

**RESPONSE:**

a. As a point of clarification, I did not use the R94-1 *methodology* to establish the non-Ramsey rates. I used the R94-1 markups, which were a result of the methodology used by the Commission to recommend rates in that case.

The enclosed Summary Table 1A compares the non-Ramsey prices presented in my testimony, the Postal Service's proposed prices for this case, and the Ramsey prices presented in my testimony. Prices are expressed as average revenues per piece. Note that the Postal Service proposal eliminated Standard A single-piece mail. For 14 of the remaining 21 mail products, the Postal Service's proposed rates differ from the non-Ramsey rates in the same direction as the Ramsey rates. That is, for these 14 mail products, the Postal Service and the Ramsey rate are either both higher or both lower than the non-Ramsey rate. Of the seven products for which the Postal

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA

Service price is not in the same direction as the Ramsey price (relative to the non-Ramsey price), four are the subclasses of Periodicals Mail. Therefore, except for Periodicals Mail, I would say the Postal Service's proposed rates reflect the Ramsey pricing principles to an important degree, although they are clearly not Ramsey prices.

b. I had no occasion to prepare the tables that you requested in this sub-part. If you wish, comparisons of Ramsey pricing with the proposed and recommended mark-ups from R87-1 and R90-1 can be made following the methodology detailed in my testimony and library references. Parenthetically, I would note that if the R87-1 case "fully developed the relative markups used as benchmarks in later rate cases" (including by extension R94-1) then the comparison of Ramsey prices to prices based on the mark-ups in R87-1 and R90-1 should yield results quite similar to those presented in my testimony.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA

**SUMMARY TABLE 1A**  
**Price Comparison**  
**Accompanying the Response to OCA/USPS-T31-5**

Mail Product	After-Rates Price (based on R94-1)	After-Rates Price (USPS Proposed)	After-Rates Price (Ramsey Pricing)
First-Class Letters	\$0.3488	\$0.3518	\$0.3551
First-Class Cards	\$0.1612	\$0.1972	\$0.1420
Priority Mail	\$4.4053	\$3.7770	\$2.4124
Express Mail	\$14.0132	\$13.4120	\$11.2947
Periodicals In-County	\$0.1001	\$0.0928	\$0.1416
Periodicals Nonprofit	\$0.1704	\$0.1585	\$0.2409
Periodical Classroom	\$0.2991	\$0.2168	\$0.4229
Periodicals Regular	\$0.2694	\$0.2363	\$0.4724
Standard Single Piece	\$1.4731	N.A.	\$1.6402
Standard Regular	\$0.1903	\$0.2132	\$0.2575
Standard ECR	\$0.1630	\$0.1500	\$0.0802
Standard Nonprofit	\$0.1248	\$0.1281	\$0.1498
Standard NP ECR	\$0.0866	\$0.0783	\$0.0554
Parcel Post	\$3.6199	\$3.3364	\$4.1123
Bound Printed Matter	\$0.8816	\$0.9128	\$0.8435
Special Rate	\$1.3657	\$1.7572	\$1.7775
Library Rate	\$1.7643	\$1.8249	\$2.0383
Registry	\$8.2301	\$8.5808	\$8.3269
Insurance	\$2.0851	\$2.4331	\$2.9067
Certified	\$2.1812	\$1.4993	\$1.7266
COD	\$4.5288	\$4.6381	\$9.3372
Money Orders	\$0.7171	\$1.0136	\$0.8368

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA

OCA/USPS-T31-6. Please refer to page 8 of your direct testimony. You state: "Economic theory argues that product price should be equal to product marginal cost, defined as the additional cost associated with a one unit increase in production. If the Postal Service were to set product price equal to marginal cost (which is essentially equal to per piece volume variable cost), product revenues would be less than total costs, equal to total volume variable costs." Please refer to the following quotation from an economics textbook [Robin W. Boadway, *Public Sector Economics* (1979), pp. 36-37]:

The analysis of the efficiency of competitive markets requires that firms' technologies exhibit constant or decreasing returns to scale. If increasing returns to scale exists in an industry up to relatively high levels of output, the competitive analysis of market behavior breaks down for two reasons. First, the market structure of such an industry would not be such as to induce competitive behavior. Because of the increasing returns or economies of scale, large firms would force small firms out of business by producing at a lower cost, and ultimately the industry would end up as a monopoly if the scale economies continued to large enough outputs. Since monopoly pricing does not set prices equal to marginal costs, the overall Pareto-optimal conditions are violated and efficiency of resource allocation is not attained.

A second problem arises when increasing returns to scale prevail. Even if competitive market structure did exist or if firms could be coerced into behaving as firms in a competitive industry do, the private sector could not profitably sustain marginal cost pricing. With increasing returns to scale, the average cost curves of a firm will everywhere slope downward, [footnote omitted] yielding marginal costs that are less than average costs. *Pricing at marginal cost would be equivalent to pricing below average cost and therefore firms would be unable to cover costs.* Because of this, the private sector could not behave according to Pareto-optimizing rules.

Is the material cited from your testimony on page 8 consistent with (i.e., perhaps a short-hand version of) the Boadway excerpt. If not, please explain.

RESPONSE:

The Boadway excerpt is consistent with my testimony.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA

OCA/USPS-T31-7. Please refer to page 38. You state: "It is assumed that in the range of volumes being considered, volume variable cost per piece, and therefore marginal cost, is constant *for every mail product.*" [Emphasis added]. Upon what empirical evidence do you base this assumption.

RESPONSE:

As a point of clarification, each postal product has a unique marginal cost. I assumed that marginal cost of a product is unaffected by the volume of that product. I do not assume that all products have the same marginal cost, which may have been your interpretation as indicated by the added emphasis.

I have not directly examined empirical evidence to support the view that marginal cost is unaffected by volume. However, the assumption that for a given postal product, marginal cost is unaffected by volume is consistent with the rate making methodology employed by the Postal Service and the Postal Rate Commission. That is, the after-rates volume variable cost per piece (i.e., marginal cost) is assumed to be essentially equal to the before-rates volume variable cost per piece, even though the after-rates and before-rates volumes are different.

**RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA**

OCA/USPS-T31-8. You state on page 33 that "Ramsey prices depend on own- and cross-price elasticities of demand." At Table 6, you use cross-price elasticities for postal products and services only.

- a. Are cross-price elasticities of non-postal products and services relevant? If not, why not?
- b. In Table 6 you show cross-price elasticities between various classes of mail, but for Priority Mail you do not indicate the Express Mail cross-price elasticity, whereas you give the reciprocal figures. Please explain.

**RESPONSE:**

- a. Please see my response to the Presiding Officer's Information Request No. 1, part 4, for a discussion of the issue of cross-price elasticities of non-postal products and services.
- b. The elasticities for Priority and Express Mail are obtained from the testimony of Dr. Musgrave (USPS-T-8). Dr. Musgrave included the price of Priority Mail in the demand equation for Express Mail but did not include the price of Express Mail in the demand equation for Priority Mail.

**RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA**

OCA/USPS-T31-9. On page 38 you state: "The incremental cost of a product is the cost that the Postal Service would save if the product were eliminated entirely. In addition to covering the product's volume variable costs, postal prices (Ramsey or otherwise) should generate sufficient revenues to cover the product's incremental cost. If not, the Postal Service and mailers would be better off if the product were discontinued." On page 39 you state: "As it turns out, Express Mail and Registry mail have Ramsey prices that generate revenues below incremental costs. Consequently, the prices of these two products are constrained above their Ramsey prices so that revenues cover incremental costs."

- a. If the Commission were to adopt Ramsey pricing, would it be your position that the Postal Service should propose eliminating these classes? Please explain.
- b. What is the "third-best" pricing rule when both a break-even constraint and an incremental cost coverage constraint are binding. Please show the derivation of this rule.

**RESPONSE:**

- a. Of course not. If Express Mail and Registry mail were eliminated, mailers would be deprived of all the consumer surplus provided by these products. An economically more efficient approach would be to set the prices of Express Mail and Registry Mail at a level necessary to cover their incremental costs as was done in my testimony.
- b. I do not have a formal derivation of this rule. It seems obvious to me that if the Ramsey price is less than the price necessary to cover incremental costs, then the "third-best" price would be the price necessary to cover incremental costs, since any price above the incremental cost coverage price would be even further away from the Ramsey price. Please also see my response to NAA/USPS-T31-6.

**RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA**

OCA/USPS-T31-10. Please refer to pages 68-69. You state: "However, because the cross-price elasticities between postal products are generally quite small or non-existent, the resulting shift in the demand curves are also quite small. Consequently, the actual gains to consumers will not be substantially different from the estimated gains presented in this section." On page 37, Table 6, the cross-price elasticities between Express Mail and Priority Mail, and between Standard B parcel post and Priority Mail are .46 and .45, respectively. Please explain why this does not affect the reliability of your estimates of the change in consumer surplus.

**RESPONSE:**

Cross-price elasticities between postal products are included in the Ramsey price calculations. While the presence of cross-price elasticities affects the estimate of consumer surplus of individual products with cross-elasticities, it is another question whether the total change in consumer surplus across all postal products is meaningfully affected. Cross-price elasticities measure shifts by mailers from one postal product to another leading to offsetting effects. The loss of consumer surplus by shifting out of one product is offset by the gain from shifting into the other product.

Without cross-price elasticities, the change in consumer surplus is equal to the integral of the demand curve between the non-Ramsey and the Ramsey price. This integral was approximated by equation 9C from my testimony:

$$\text{Change in Consumer Surplus} = \frac{1}{2}(V_R + V_0) \cdot (P_0 - P_R)$$

When cross-price elasticities exist, a change in the price of product j causes the demand curve for product i to shift. The calculation of the integral of the demand curve for product i is therefore complicated by the fact that there is no longer a single demand curve for product i. Instead, there are two relevant demand curves for product i, one that exists at the non-Ramsey price of product j and the other that exists at the Ramsey price of product j.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA

One way to gauge the importance of this demand shift is to re-calculate the volume of each subclass of mail assuming the price of each product's substitute had not changed from its non-Ramsey price. With the price of the substitute products held constant at the non-Ramsey price, the change in consumer surplus for a product from a move to Ramsey pricing can be estimated along a single demand curve, following equation (9C).

A second way to re-estimate the change in consumer surplus for these products, with the price of each product's substitute equal to its Ramsey price. Again, with a constant price of substitutes, the change in consumer surplus from the non-Ramsey to the Ramsey price can be estimated along a single demand curve.

Tables A, B, and C below provide the relevant comparisons. Table A presents the prices and volumes used in my testimony to estimate consumer surplus from Express Mail, parcel post, and Priority Mail.. Table B re-calculates the Ramsey volumes of these three products assuming that substitute product prices remained at their non-Ramsey level. For example, a shift in the demand curves for Express Mail and parcel post occurs because the non-Ramsey price of Priority Mail is \$4.4053 while the non-Ramsey price is \$2.4124. Applying the Test Year effective cross-price elasticity (which differs from the long-run cross-price elasticities discussed in your interrogatory) of Express Mail to the ratio of the non-Ramsey to the Ramsey prices yields the cross-price projection factor. Mathematically, this is equal to  $[4.4053/2.4124]^{0.326854}$ , or 1.2175. Multiplying the Ramsey volume of Express Mail (65.222 million pieces) by 1.2175 gives the volume of Express Mail (79.410 million pieces) that would occur at the Ramsey price of this product, holding the price of Priority Mail at its non-Ramsey price. Similar calculations give an adjusted Ramsey volume for parcel post (holding the price of

**RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA**

Priority mail at its non-Ramsey price) and an adjusted Ramsey volume for Priority Mail (holding the price of parcel post at its non-Ramsey price). Each product's change in consumer surplus can then be estimated along a single demand curve, unaffected by the change in substitute prices.

Table C re-calculates the non-Ramsey volumes of each product, assuming that the price of substitute products were equal to their Ramsey price. Again, the product's change in consumer surplus is estimated along a single demand curve.

**Table A  
Calculation of Change in Consumer Surplus  
Volumes as Presented in USPS-T-31**

Product	Non-Ramsey Volume	Non-Ramsey Price	Ramsey Volume	Ramsey Price	Change in Consumer Surplus (\$ millions)
Express Mail	62.093	\$14.0132	65.222	\$11.2947	+\$173.1
Parcel Post	231.151	\$3.6199	171.990	\$4.1123	-\$99.3
Priority Mail	997.928	\$4.4053	1,444.393	\$2.4124	+2,433.7
Total					+2,507.5

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA

The intuitive point mentioned earlier in this response, namely, that shifts of volume from one postal product to another have largely offsetting effects on total consumer surplus.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA

OCA/USPS-T31-11. Please refer to pages 44 and 54-55 of your testimony. You state at page 44 that library reference H-165 contains "the entire set of effective Test Year price elasticities used in making the Ramsey volume forecasts."

- a. Please provide in hard copy a table showing, side by side, "effective Test Year price elasticities used in making the Ramsey volume forecasts," and "long-run own-price elastic[ies]."
- b. Table 11 appears to be based on "long-run own-price elastic[ies]." Is this correct? If so, please provide a version of Table 11 based on "effective Test Year price elasticities." If not, please provide a version of Table 11 based on "long-run own-price elastic[ies]."

RESPONSE:

- a. The requested information can be found in the LOTUS files CALL.WK1 or RAMDATA.WK4, accompanying LRH-165. For your convenience, the effective Test Year and long-run own-price elasticities are reprinted in Table 1 accompanying this response.
- b. Table 11 is based on both the long-run and the effect Test Year price elasticities. The long-run price elasticities are used in the calculations of the Ramsey prices. These elasticities reflect mailer valuation of each postal product. Effective Test Year elasticities are used in the calculations of the Ramsey and non-Ramsey volumes. These elasticities closely approximate the change in volume that would be expected to occur in the Test Year, given a change in rates that occurs on the first day of the Test Year. They were employed as a simplification instead of projecting volumes using the current and lagged elasticities as done in the volume forecasts of Postal Service witnesses Tolley and Musgrave. Please see my testimony at pages 41 through 44 for a discussion of the use of effective Test Year elasticities in my volume forecasts.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA

A version of Table 11 based entirely on the long-run price elasticities would yield incorrect forecasts of Test Year volume. A version of Table 11 based entirely on the effective Test Year price elasticities would yield correct volumes, but the Ramsey prices would not be based on the estimated elasticities of demand. Accordingly, there is no point in providing the versions of Table 11 that were requested in this interrogatory.

**TABLE 1  
 RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
 TO OCA/USPS-T31-11**

**Elasticities Used in Calculation of Ramsey Prices  
 (USPS-T-31)**

	Own-Price Elasticities for Volume Calculations	Own-Price Elasticities for Price Calculations
First-Class Letters Total	-0.175905	-0.232492
First-Class Cards Total	-0.620961	-0.862674
Priority Mail	-0.596004	-0.770488
Express Mail	-1.140566	-1.533788
Periodicals In County	-0.428748	-0.529948
Periodicals Nonprofit	-0.178703	-0.227917
Periodicals Classroom	-0.889888	-1.178481
Periodicals Regular	-0.092997	-0.143253
Standard A Single Peice	-0.510956	-0.654259
Standard A Regular	-0.335303	-0.381623
Standard A ECR	-0.436161	-0.597746
Standard A Nonprofit	-0.112126	-0.135814
Standard A Nonprofit ECR	-0.112126	-0.135814
Standard B Parcel Post	-0.844828	-0.964629
Standard B Bound Printed	-0.218267	-0.335170
Standard B Special Rate	-0.319024	-0.362037
Standard B Library Rate	-0.437038	-0.634333
Registered	-0.317230	-0.413445
Insured	-0.068253	-0.104734
Certified	-0.195546	-0.286961
COD	-0.118573	-0.182012
Money Orders	-0.312525	-0.391377

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA

OCA/USPS-T31-12. Please provide in hard copy a step-by-step calculation of the Ramsey prices for Express Mail using:

- a. "effective Test Year price elasticities"
- b. "long-run own-price elasticities"

RESPONSE:

As explained in my response to OCA/USPS-T31-11, Ramsey prices are calculated using long-run price elasticities and Ramsey volumes are calculated using effective Test Year price elasticities, which serve as a close approximation of the more complex volume forecast approach employed by witnesses Tolley and Musgrave. I have no calculation of separate Express Mail Ramsey prices requested in this interrogatory since in (a), the price would not be the Ramsey price and in (b), the volume forecast of Express Mail would be incorrect.

In regards to a step-by-step calculation, Ramsey prices are computed through an iterative procedure that does not lend itself to a step-by-step presentation. The Ramsey computer program simultaneously solves for all Ramsey prices for a given level of leakage ( $k$ ), projects the volumes of all mail products at these prices, recalculates the Ramsey prices based on these new volumes (since the Ramsey prices of products with inter-dependent demands depend on product volumes), and once a set of consistent Ramsey prices and volumes are generated, checks to see if the Ramsey net revenue requirement is satisfied. If not, the iterative process is repeated until the  $k$  value that satisfies the Ramsey net revenue requirement is found. The computation requires hundreds, perhaps thousands of individual iterations on price, volume, and net revenue and cannot possibly be presented in hard copy form.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF OCA

JCA/USPS-T31-13. Please refer to page 60 of your testimony. You explain that the price you calculate for Express Mail is not a simple Ramsey price, but is higher because the Ramsey price would not yield enough revenue to cover incremental cost.

- a. What was the calculated Ramsey price for Express Mail?
- b. How was the constrained price, which is high enough to cover the incremental cost (\$11.2947) calculated?

RESPONSE:

a. The calculated price of Express Mail using the Ramsey pricing formula is found by removing the price constraint from the MATLAB program and re-running the Ramsey computer algorithm. When this was done, the resulting unconstrained Ramsey price of Express Mail was \$7.0420, yielding a mark-up of about seven percent above marginal cost, consistent with the product's own-price elasticity of -1.534.

b. Table 7 at page 40 of my testimony shows that the Test Year before-rates incremental costs of Express Mail are \$727.1 million and the Test Year before-rates volume variable costs of Express Mail are \$423.481 million. The ratio of incremental costs to volume variable costs ( $\$727.1 \text{ million} / \$423.481 \text{ million}$ ) is 1.717. The price of Express Mail was set at 1.717 times the volume variable costs per piece of this product, thereby providing a mark-up that satisfied the incremental cost test.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF UPS

UPS/USPS-T31-1. Please refer to page 2 of your testimony, lines 2 through 11. Please confirm that the purpose described there was the primary objective for your analysis and the purpose described on lines 12 through 15 was a secondary objective. If not confirmed, please explain.

RESPONSE:

The purpose described at lines 12 through 15 – “providing a guideline for postal pricing based on the principle of economic efficiency” – is a secondary purpose in the sense that a full appreciation of this purpose requires that the first purpose of my testimony be fulfilled. I do not consider it to be of secondary importance, however.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF UPS

UPS/USPS-T31-2. Please refer to Table 11 on page 55 of your testimony.

- a. Please confirm that not all prices listed there are Ramsey prices. If not confirmed, please explain.
- b. Please list all prices in Table 11 that are not Ramsey prices and the reasons why substitutes were used.
- c. Will substituting alternative prices for Ramsey prices for some subclasses of mail change the other prices shown in Table 11 so that they are different from what they would be if Table 1 only showed the rates resulting from application of your Ramsey pricing formula?

RESPONSE:

- a. Confirmed.
- b. The prices of the six preferred subclasses of mail – Periodicals in-county, classroom and nonprofit; Standard bulk nonprofit and bulk nonprofit ECR, and library rate – are not Ramsey prices because the prices are based on the requirements of the Revenue Forgone Reform Act (RFRA). In addition, the price of Periodicals Regular mail, to which the prices of the preferred categories of Periodicals mail are tied, is not its Ramsey price for reasons discussed in my responses to ABP/USPS-T31-2 and NAA/USPS-T31-18.

The prices of Express Mail and Registered Mail were set at a level sufficient to cover these products' incremental costs for reasons discussed in my response to NAA/USPS-T31-6.

The prices of Insurance and COD were set so as to have a mark-up that was ten percent greater than the mark-up on the First-Class letter subclass following the reasoning presented in my testimony at page 61, line 22 to page 62, line 6.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF UPS

c. If the combined net revenues earned from the products discussed in sub-part (b) at their constrained prices are different than the combined net revenues earned at their Ramsey prices, then the Ramsey prices of the other remaining products would be affected. If the combined net revenues at the pure Ramsey prices were less than at the constrained Ramsey prices, then the Ramsey prices of the other products would be somewhat lower since less net revenue would have to be earned from these products. Conversely, if the combined net revenues at the pure Ramsey prices is more than at the constrained Ramsey prices, the other products would have lower Ramsey prices.

Note, however, that the constraints imposed on the six preferred subclasses by the RFRA are constraints that any postal rate schedule must satisfy. To the extent that the RFRA keeps the prices of the preferred subclasses lower than they would otherwise be, the prices of the other mail products must be higher, a fact that holds true whether Ramsey or non-Ramsey rates are proposed.

Regarding the other four mail products for which a constrained Ramsey price is imposed, Express Mail and Registry mail have constrained prices higher than their Ramsey prices while Insurance and COD have constrained prices lower than their Ramsey prices. Overall, the total net revenues from these four products at their constrained Ramsey prices is probably not too different from the net revenues that would be earned at their Ramsey prices, meaning that the net effect of these constraints on the Ramsey prices of the other mail products is small. Furthermore, the constraints on these four mail products do not affect the direction of the difference between the Ramsey and non-Ramsey prices. That is, the constrained and unconstrained Ramsey prices for Express Mail and Registered mail are both less than the products' non-Ramsey prices. Similarly, the constrained and unconstrained

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN  
TO INTERROGATORIES OF UPS

Ramsey prices of Insurance and COD are both greater than the products' non-Ramsey prices.

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 1

4. The Ramsey model presented in Library Reference H-164, concluding on page 4, contains cross elasticities between the various postal products but does not contain cross elasticities between postal products and the various competing nonpostal products. Elasticities of the latter kind, however, are often included in Ramsey formulations. See, for example, Roger Sherman and Anthony George, "Second-Best Pricing for the U.S. Postal Service," Southern Economic Journal, Vol. 45 (January 1979). Also, cross elasticities to nonpostal products are included in the demand models of parcel post, Priority, and Express Mail. See USPS-T-7, page 98 and USPS-T-8, pages 17 and 37.

- a. Please discuss the advantages and disadvantages of formulations with and without cross elasticities of nonpostal products.
- b. To the extent to which the required information is available, please provide your best estimates of Ramsey results, including these elasticities.
- c. To the extent to which the required information is not available, please provide a discussion of the likely effects of including such elasticities.

RESPONSE:

a and b. Elasticities with competing nonpostal products can be included in a Ramsey pricing model because changes in Postal Service rates can affect the demand for competing firms' products and the firms' profits. Thus, the Ramsey pricing task could be re-stated as the maximization of total producer and consumer surplus, which would then include not only the producer and consumer surplus of the Postal Service and its users but also the producer and consumer surplus associated with competing products.

There are two main disadvantages of including cross elasticities with nonpostal products in the Ramsey price calculations for postal products. The first, which will be discussed in sub-part (c), is that the Ramsey price calculations require not only the cross elasticity between the postal product volume and the competing product's price,

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 1

but also information on:

- i) the cross-elasticity of the competing firm's volume with respect to the postal price;
- ii) the own-price elasticity of the competing firm;
- iii) the revenues of the competing firm;
- iv) the mark-up of the competing firm's price over its marginal cost; and
- v) the reaction of the competing firm's price to changes in the postal price.

Little, if any, of the above information is readily available for the two competing firms that are included in Postal Service demand equations, Federal Express and United Parcel Service (UPS).

A second disadvantage of including nonpostal cross-elasticities in the Ramsey price calculations of postal prices is philosophical. Even if all the required information were available, the resulting model would still not be a complete Ramsey pricing model. A complete Ramsey pricing model would determine efficient prices of postal products *and* related nonpostal products. See, for example, Ronald R. Braeutigam, "Optimal Pricing with Intermodal Competition," *American Economic Review*, Vol. 69 (1979). Yet, neither the Postal Service nor the Postal Rate Commission has any direct control over the prices of other firms, making the exercise theoretically interesting but of little practical value.

At the same time, market conditions may act to generate the efficient prices for nonpostal firms, which occurs when the nonpostal firms set price equal to marginal cost of production. However, as will be shown in sub-part c, if the competing firms are pricing at marginal cost, then the Ramsey prices that result with cross elasticities of competing firms are identical to the prices that result without inclusion of those cross-elasticities.

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 1

c. A Ramsey pricing equation including competition with nonpostal firms (often referred to as Ramsey pricing with rivalry) is presented below. Product 1 is produced by the Postal Service and product 2 is produced by a nonpostal firm. [For simplicity, cross-elasticities between postal products are ignored in this analysis].

Equation(1):

$$\left( \frac{P_1 - M_1}{P_1} \right) \left[ E_{11} + E_{12} \left( \frac{dP_2}{dP_1} \frac{P_1}{P_2} \right) \right] + (1-k) \left( \frac{P_2 - M_2}{P_2} \right) \left[ E_{21} \frac{R_2}{R_1} + E_{22} \left( \frac{dP_2}{dP_1} \frac{P_1}{P_2} \right) \frac{R_2}{R_1} \right] = -k$$

where

$P_1$  is the price of the postal product;

$M_1$  is the marginal cost of the postal product;

$E_{11}$  is the own-price elasticity of the postal product;

$E_{12}$  is the cross-price elasticity of the postal product with respect to the price of the nonpostal product;

$dP_2/dP_1$  is the change in the price of the nonpostal product in response to a change in the price of the postal product;

$P_2$  is the price of the nonpostal product;

$M_2$  is the marginal cost of the nonpostal product;

$E_{21}$  is the cross-price elasticity of the nonpostal product with respect to a change in the price of the postal product;

$R_2$  and  $R_1$  are the revenues of the nonpostal and postal products, respectively;

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 1

$E_{22}$  is the own-price elasticity of the nonpostal product; and  
 $k$  is the Ramsey leakage constant.

A first observation is that if the nonpostal firm is pricing at marginal cost, which includes a normal profit for the private competing firm, then the Ramsey equation reduces to the inverse elasticity rule. Note that this condition requires that the response of the nonpostal firm to a change in postal prices ( $dP_2/dP_1$ ) is zero, which it will be under conditions in which the nonpostal firm is operating in a market with marginal cost pricing.

If cross-elasticities exist and the nonpostal firm is pricing above its marginal cost, then the Ramsey price with rivalry may differ from the Ramsey price in which rivalry is not considered. The direction of the departure depends critically on the response of the nonpostal firm to changes in the price of the postal product. Assume for the moment that the price of the nonpostal firm does not change in response to a change in the price of the postal product (i.e.,  $dP_2/dP_1 = 0$ ). In this case, the Ramsey price of the postal product with rivalry will be greater than when rivalry is not considered. This can be seen by re-writing the above equation with  $dP_2/dP_1$  equal to 0:

Equation (2):

$$\left( \frac{P_1 - M_1}{P_1} \right) E_{11} + (1 - k) \left( \frac{P_2 - M_2}{P_2} \right) E_{21} \frac{R_2}{R_1} = -k$$

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 1

$[(P_1 - M_1)/P_1]E_{11}$  is the familiar term from the Inverse Elasticity Rule (IER). The other term on the left-hand side of the equation has a positive sign since  $P_2$  is assumed greater than  $M_2$ , and  $E_{21}$  is assumed greater than zero. As a consequence, the Ramsey price of the postal product ( $P_1$ ) will have to be higher than in the case without rivalry to offset the positive value of the other term and maintain equality with  $k$ .

The intuition of this result is that increases in the price of the postal product increase demand for the nonpostal product (because of the cross-elasticity effect) and with nonpostal price above marginal cost, this increase in demand increases the profits of the nonpostal firm. These profits would be included as part of the total social welfare from Ramsey pricing. Note that "profits" here refers to "economic profits" defined as profits above what would be expected from a normal operation. If the economic profits are small, the effect on Ramsey prices of the nonpostal products will be small. If the nonpostal firms economic profits are substantial, then the Ramsey price of the postal product could be meaningfully affected. However, it must be noted that if the nonpostal firm's price significantly departs from its marginal cost, then there is an important loss of economic efficiency in the market for the nonpostal product.

The foregoing discussion shows that when the nonpostal firm is pricing above marginal cost ( $P_2 - M_2 > 0$ ) and the nonpostal firm's price is unchanged by a change in the postal product price ( $dP_2/dP_1 = 0$ ), the Ramsey price with rivalry will be above the price without rivalry. The opposite result can occur if the nonpostal price is positively related to changes in the postal price ( $dP_2/dP_1 > 0$ ), meaning, for example, that an increase in the price of a postal product contributes to the increase in the price of the nonpostal competing product. Under these conditions, the Ramsey pricing equation

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 1

includes all terms with  $dP_2/dP_1$ . As compared with the equation without this condition, the following terms are included on the left-side of Equation (2).

$$\left( \frac{P_1 - M_1}{P_1} \right) \left[ E_{12} \left( \frac{dP_2 P_1}{dP_1 P_2} \right) \right] + (1-k) \left( \frac{P_2 - M_2}{P_2} \right) \left[ E_{22} \left( \frac{dP_2 P_1}{dP_1 P_2} \right) \frac{R_2}{R_1} \right]$$

If one assumes for simplicity that the postal product and the nonpostal product have approximately the same price, then  $P_1/P_2$  approximately equals 1. Eliminating this term yields the following additional terms resulting from assuming  $dP_2/dP_1 > 0$ :

$$\left( \frac{P_1 - M_1}{P_1} \right) \left[ E_{12} \left( \frac{dP_2}{dP_1} \right) \right] + (1-k) \left( \frac{P_2 - M_2}{P_2} \right) \left[ E_{22} \left( \frac{dP_2}{dP_1} \right) \frac{R_2}{R_1} \right]$$

The first term above is positive, but the second term is negative owing to the fact that  $E_{22}$  (the own-price elasticity of the nonpostal firm) is negative. It would be quite easy for the sum of the above terms to be negative (and meaningfully so), especially if one considers the case where the competing firm is UPS whose revenues ( $R_2$ ) are many times the revenues of either Priority Mail or parcel post ( $R_1$ ).

Two conclusions from the above analysis with  $dP_2/dP_1 > 0$  are:

- 1) Ramsey prices of postal products including rivalry will be less than if  $dP_2/dP_1 = 0$
- 2) Ramsey prices of postal products including rivalry could be less than the Ramsey prices when rivalry is not considered.

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 1

The intuition of the second result is as follows. With  $dP_2/dP_1 > 0$ , a change in postal product price causes a change in the same direction (though not necessarily of equal magnitude) in the price of the nonpostal product. If the nonpostal product price is above its marginal cost (which is a necessary condition for any of this analysis to matter), then there is a loss of efficiency in the nonpostal product market. If the nonpostal price moves in the same direction as the postal product price (i.e.,  $dP_2/dP_1 > 0$ ), then *lowering* the postal product price will produce a decline in the nonpostal product price. This decline in the nonpostal price will move that price closer to its marginal cost, thereby increasing total social welfare. This point is especially true if the revenues of the nonpostal product are much larger than the revenues of the competing postal product.

Ultimately, the Ramsey prices of postal products are affected by cross-elasticities with nonpostal products only if the nonpostal firms are pricing above marginal cost. Both Federal Express and UPS operate in competitive markets with free entry, economic conditions that lead to marginal cost pricing. For that reason, the Ramsey model without cross-elasticities of nonpostal firms is likely to yield results quite similar to those that would result from a model with nonpostal firms.

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 3

1. In his discussion of the relation of Ramsey pricing to the Efficient Component Pricing (ECP) rule, witness Bernstein (USPS-T-31) uses Thress's own-price elasticities for single-piece letters of  $-0.189240$  and for workshared letters of  $-0.289173$ . See page 83. Since decisions by mailers to perform more (or less) worksharing are modeled by witness Thress (USPS-T-7) with a "discount elasticity," these two own-price elasticities would seem to relate to the effects of price changes on quantities, with the level of the discount remaining constant.

The Ramsey formulas, however, contain traditional own-price elasticities defined as the change in quantity divided by the change in price, time the price-quantity ratio, other relevant variables remaining unchanged. When considering the Ramsey formulas for single-piece mail, one of the other relevant variables that remains unchanged is the price of workshared mail. Since this latter price remains unchanged, an increase in the price of single-piece mail will increase the discount by an equal amount. Accordingly, the change in quantity that enters into the numerator of the elasticity has two components. The first is the change in quantity of single-piece mail due to the price increase itself and the second is the change in quantity due to mailers that decide to workshare. When added, these components can provide a large numerator and therefore a large elasticity.

It appears that witness Bernstein used the lower elasticity of  $-0.189240$  rather than the larger elasticity that would result from adding the two effects just discussed. Please explain which elasticity is relevant to Ramsey calculations and how the result would be affected by using one elasticity instead of the other. Also, please specify and explain the cross elasticities that were used to obtain the Ramsey results shown in Table 17 on page 87.

RESPONSE:

*From a conceptual standpoint, the own-price elasticity in Ramsey price calculations relates to the issue of leakage. Leakage refers to the loss of mail volume that results from an increase in price and the resulting loss of consumer surplus and decline in Postal Service net revenues. Witness Thress's discount elasticity measures the shift of volume between single-piece and workshare mail in response to a change in the workshare discount but -- importantly -- the elasticity is calibrated so that there is no change in total volume. Hence, there is no leakage in the sense of a decline in mailer*

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 3

use of First-Class letters from a change in the discount. For that reason, the discount elasticity is not included in the calculation of the Ramsey prices of single-piece and workshared letters.

At the same time, the shift of mail between single-piece and workshared letters, while having no effect on total volume, will affect net revenues of the Postal Service. In other words, the discount elasticity effect is not an issue of volume, but of cost, with a change in the discount affecting Postal Service cost and mailer user cost. Therefore, the effect of the discount elasticity is included in the calculations of total volumes of single-piece and workshared letters and total Postal Service net revenues from the First-Class letter subclass.

If, hypothetically, the demand model did include own- and cross-price elasticities, the own- and cross-price elasticities of single-piece mail (and similarly modeled workshare mail) would have been included in the Ramsey price calculations, following the standard formula with interdependent demands. Most likely, such a formulation would have led to a higher own-price elasticity of single-piece mail leading, in itself, to a lower Ramsey price for this category. But, the presence of the cross-price elasticity between single-piece and workshared mail would have led to an offsetting increase in the Ramsey price. Similarly, including a cross-price elasticity with single-piece mail in the demand equation for workshare mail would most likely increase the workshare own-price elasticity, but the combined impact of the higher own-price elasticity and cross-price elasticity would leave the Ramsey price of workshare letters largely unaffected.

An effort was made to convert witness Thress's discount elasticity into a traditional cross-price elasticity measure. This effort was unsuccessful because a

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 3

constant percentage change in the discount does not correspond to a constant percentage change in the price of either single-piece or workshare mail, making any local approximation of the cross-price elasticity quite inaccurate when category prices change to a meaningful degree.

To summarize, the own-price elasticities of single-piece and workshare mail are used to calculate the Ramsey prices of these categories because the own-price elasticities measure the loss or gain in volume that occurs when category prices change. Once a set of Ramsey prices was established, the discount elasticity was included (along with the own-price elasticities) to generate a volume forecast and check to see if the net revenue requirement was satisfied. Through an iterative process, Ramsey prices and a resulting workshare discount were found that satisfy the Ramsey revenue requirement for the First-Class letter subclass.

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 3

2. On page 85, witness Bernstein (USPS-T-31) notes: "A key assumption of the price calculation is that when the a piece of mail shifts from single-piece to workshare, the postal marginal cost of that mail falls from the single-piece marginal cost of \$0.2323 to the workshare marginal cost of \$0.0991, thereby saving the Postal Service ... \$0.1333 per piece." Please provide any evidence available supporting the position that the savings to the Postal Service for likely-workshared mail is in the neighborhood of 13.33 cents per piece and, separately, supporting the position that the relevant savings is not in the neighborhood of the current 6-cent discount level (the latter figure being discussed on page 81).

RESPONSE:

The Postal Service's cost savings from mailer worksharing may be less than the difference between the average postal costs of single-piece and workshared mail, as I noted in my discussion at pages 81-82 of my testimony. As I stated at page 81, lines 21-23, " the type of mail that is most likely to shift from single-piece to workshare mail is probably relatively low cost single-piece mail." In this case, the Postal Service cost savings from mailer worksharing would be less than the difference between the average costs of single-piece and workshared mail.

Nevertheless, in order to make empirical calculations I needed to make assumptions regarding the cost savings from mailer worksharing. The 13.33 cent (actually closer to 13.32 cent) difference between the average costs of single-piece and workshare mail was used in my calculations, primarily so as to compare the resulting Ramsey workshare discount to the ECP discount. Please see my response to part 3 of this information request for more discussion of this issue.

All the same, as this question suggests, from within the nonworkshared category, one could, in theory at least, identify the mail that is more likely to become workshared if the discount is increased. This is what I presume to be "likely-workshared."

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 3

Furthermore, if the costs and volumes of this "likely-workshared" mail could be determined and if the per piece cost of likely-workshared mail differed from the per piece cost of all nonworkshared mail, then this cost estimate might provide a basis for estimating the Postal Service cost savings from worksharing.

It is my understanding that the foregoing line of reasoning is consistent with the use in this case of bulk metered letter mail as the benchmark used to design worksharing discounts (see the testimony of David Fronk, USPS-T-32 at pages 19-21). There, the costs of bulk metered letter mail are used as a proxy for the average costs of "likely-workshared" mail. I am informed that the best available estimate of the cost of bulk metered letter mail is between 16.19 and 18.79 cents per piece. I understand that the development of this estimate will be presented in a separate portion of the response to this question. Given this information, it would appear that the Postal Service savings from mailer worksharing could be approximated as the difference between the per piece cost of bulk metered mail and the 9.91 cent per piece cost of workshared mail, or in the range of 6.28 to 8.88 cents per piece. This cost difference is lower than the 13.32 cent cost used in the empirical calculations in my testimony (though it is greater than the six cent cost difference suggested in this interrogatory), but is consistent with the conceptual discussion presented at pages 81-82.

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 3

3. On page 88, witness Bernstein develops an estimate of the technical losses caused by the Ramsey workshare discount of 14.38 cents when the ECP workshare discount is 13.32 cents, the latter figure being the difference between the Postal Service cost between the single-piece and workshare category. Please develop the technical losses caused by a Ramsey discount for a situation where the Postal Service's savings (and the associated ECP workshare discount) are in the neighborhood of 6 cents instead of 13.32 cents.

RESPONSE:

This question appears to be asking for a recalculation of the Ramsey prices of single-piece and workshared letters under the condition that the difference between the postal marginal costs of mail that shifts between these two categories is approximately six cents. However, in order to calculate the net revenues that result from the Ramsey prices, one must know the per piece costs of all single piece and all workshare mail and not just the difference in the costs that results when a piece of mail shifts from single-piece to workshare. The Postal Service reports that the per piece cost of single-piece mail is approximately 23 cents and the per piece cost of workshare mail is approximately 10 cents. It is not possible to calculate prices under the conditions that one category has a cost of 23 cents, the other has a cost of 10 cents, and the difference between 23 cents and 10 cents is 6 cents.

Perhaps the hypothesis is that there are three types of First-Class letter mail as I suggested at page 77, line 18 to page 78, line 12 of my testimony. One type of First-Class letter mail is mail that will never be workshared for any reasonable level of the discount. By this I mean that the volume of this mail is affected by its own-price through an own-price elasticity effect but the discount elasticity effect is zero. A second type of First-Class letter mail is mail that will always be workshared for any reasonable level of

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 3

the discount. The volume of this mail is affected by its own-price but is not affected by changes in the workshare discount. The third type of First-Class letter mail is that mail which shifts between single-piece and workshare depending on the level of the discount.

Given this formulation, it may be the case that the always single-piece mail has one postal marginal cost, the always workshare mail has another postal marginal cost, and the shifting mail has two postal marginal costs, one cost if the mail piece is workshared and a different cost if it is not. Furthermore, it could be the case that the difference between the single-piece and workshared postal marginal costs of this shifting mail is six cents, while the difference between the marginal costs of the always single-piece and always workshare mail is quite a bit more than six cents.

Unfortunately, I have no information on the postal costs of the always single-piece and always workshare mail. The postal cost of all single-piece letter mail is approximately 23 cents per piece, but this mail is a mix of (presumably) higher cost always single piece mail and lower cost shifting mail that was sent as single-piece at the current discount. Similarly, the postal cost of all workshare letter mail of approximately 10 cents per piece could be a mixture of the (presumably) lower cost of always workshare mail and the higher cost of shifting mail that was sent as workshare mail at the current discount.

Although the above formulation does not lend itself to empirical analysis, it does provide a framework for reviewing what can and cannot be accomplished by application of the Efficient Component Pricing (ECP) rule. ECP minimizes the total cost of providing mail service by establishing the workshare discount that provides incentives

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 3

for the party (the Postal Service or the mailer) with the lower cost of performing the workshare activity to perform that activity. The ECP discount, given the above discussion, is six cents. But establishing the cost minimizing discount tells us nothing about the proper prices of single-piece and workshared letters. A 33 cent single-piece price and a 27 cent workshare price will yield a cost minimizing allocation of workshare activity. But cost minimization is also achieved with a single-piece price of 43 cents and a workshare price of 37 cents, or with any other price combination that yields a price difference of six cents. Yet, it would be little comfort to mailers to establish the cost minimizing discount while at the same time establishing woefully inefficient prices for single-piece and workshare letters.

To further understand this point, suppose that 49 percent of letter mail is always single-piece mail, another 49 percent is always workshare mail, and only 2 percent is shifting mail. The ECP rule would establish the cost minimizing price (discount) for the 2 percent of the mail that is actually affected by the workshare discount, while leaving unresolved the proper prices for the 98 percent of First-Class letter mail volume which, in this hypothetical, is unaffected by the workshare discount. The point is, one cannot independently set the price of single-piece mail, the price of workshare mail, and the workshare discount. Establishing any two of these prices automatically determines the third, and as a consequence some trade-offs between efficient category prices and the efficient discount must be recognized.

These trade-offs were found in my empirical work which assumed that the ECP discount was equal to the 13.32 cent difference in the marginal costs of single-piece and workshare mail. The Ramsey price difference (or discount, after adjusting for the

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 3

affect of extra ounce charges) was found to be 14.38 cents, larger than the ECP rule would dictate. This occurred because the efficiency gains from assigning a higher mark-up to less elastic single-piece mail outweighed the small loss resulting from some degree of misallocation of workshare activities.

The difference between the Ramsey and the ECP discount was found to be fairly small (*on the order of one cent*) for two reasons. First, the own-price elasticities of single-piece and workshare mail are not substantially different and second, the discount elasticity is sufficiently large to make the volume of shifting mail important relative to the volumes of always single-piece or always workshare mail. One could, however, envision a situation in which the discount elasticity (or cross-price elasticity) is quite small and the own-price elasticity differences are quite large so that the Ramsey prices would yield a discount quite a bit different from the ECP discount.

Returning, at last, to the question posed in this information request – a recalculation of the technical losses if the Postal Service's cost saving from worksharing is 6 cents per piece. As I stated earlier in this response, Postal Service cost information does not lend itself to an empirical analysis of the hypothesis that the cost saving from worksharing is equal to six cents per piece. Nonetheless, in an effort to be responsive, I have analyzed the purely hypothetical case in which the difference between the postal cost per piece of all single-piece mail and all workshare mail is 6 cents. To do this, the before-rates total volume variable costs of First-Class letter mail were re-attributed in a way that yields the same total cost but only a 6 cent per piece cost difference. This is done by solving the following equation where  $X$  is the per piece cost (in dollars) of single-piece letters and  $X - 0.06$  is the per piece cost of workshare letters:

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 3

Total Volume Variable Cost = Single-Piece Volume•X + Workshare Volume•[X - 0.06]

\$16,753.647 million = 54,394.309 million•X + 41,506.989 million•[X - 0.06]

The resulting volume variable (marginal) costs per piece are 20.0665 cents for single-piece letters and 14.0665 cents for workshared letters. Note that the above costs for single-piece and workshare letters were solved for mathematically and are not based on any information from the Postal Service regarding these category costs.

Accordingly, the present analysis is merely illustrative.

**a. Hypothetical Ramsey Prices with Six Cent Cost Difference**

Using the above costs, I was able to recalculate Ramsey prices for these two mail categories under the assumption that the Postal Service's savings from worksharing are equal to 6.0 cents per piece. The results are shown in Table 17-A.

**Table 17-A**  
**Before-Rates and Ramsey Prices of Single-Piece and Workshared Letters**  
**[assuming new postal marginal costs]**

Before-Rates	Postage Price FWI	Postal MC	Test Year Volume	Total Revenue	Total Cost	Net Revenue
Single-Piece	\$0.3934	\$0.2007	54,394	\$21,398	\$10,915	\$10,483
Workshare	\$0.2691	\$0.1407	41,507	\$11,169	\$5,839	\$5,330
Total Letters			95,901	\$32,567	\$16,754	\$15,813
Ramsey After-Rates	Postage Price FWI	Postal MC	Test Year Volume	Total Revenue	Total Cost	Net Revenue
Single-Piece	\$0.4125	\$0.2007	53,300	\$21,985	\$10,695	\$11,290
Workshare	\$0.2822	\$0.1407	42,006	\$11,856	\$5,909	\$5,947
Total Letters			95,306	\$33,841	\$16,604	\$17,237

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 3

**b. The Ramsey Workshare Discount**

The Ramsey workshare discount is equal to the difference between the Ramsey FWI of single-piece letters and the Ramsey FWI of workshare letters, less 6.43 cents to account for the differing effects of extra charges on these FWI prices. The difference between the Ramsey FWI prices using the new marginal costs as shown in Table 17-A is 13.03 cents (41.25 cents minus 28.22 cents), which yields an efficient discount of about 6.60 cents (13.03 cents minus 6.43 cents). Note that as was shown in the original Table 17, the efficient discount is slightly greater than the ECP discount.

**c. Technical Losses Resulting from Non-ECP Discount**

With a Ramsey discount somewhat greater than the ECP discount, some misallocation of worksharing activity occurs. Mailers with a user cost of between 6.0 and 6.6 cents would be induced to workshare, even though their user cost is greater than the assumed cost savings from worksharing realized by the Postal Service. This additional volume of single-piece mail that shifts to workshare can be estimated by applying the single-piece discount elasticity of -0.146183 to the ratio of the Ramsey discount (6.60 cents) to the ECP discount (6.0 cents). The result is that 1.38 percent of single piece mail shifts to workshare mail as a result of the larger than ECP discount. Multiplying the before-rates volume of single-piece mail of 54,394 million pieces by 0.0138 yields the result that 751 million pieces of single-piece mail is workshared by mailers with a user cost in excess of the Postal Service cost savings. The technical losses from this misallocation is equal to the difference between the mailers' user costs and the Postal Service's 6 cent cost savings. Misallocation of workshare activity occurs by mailers with user costs between 6.0 and 6.6 cents, the simple average of

Response of Postal Service Witness Bernstein  
to  
Presiding Officer's Information Request No. 3

which is 6.3 cents. Thus, on average 751 million pieces of mail are bearing an additional cost of 0.3 cents per piece, a total technical loss of about \$2.3 million. As was the case in my original testimony, the technical loss from a discount different from the ECP discount appears to be quite small.

Note that the foregoing illustrative analysis suggests that there is little difference between the current six cent workshare discount and the Ramsey efficient workshare discount, given the hypothesis of a six cent difference in the costs per piece of single-piece and workshare mail. Even if this were the case, the result does not affect the gains in consumer surplus of \$1,023 million, realized from the Ramsey pricing of the First-Class letter subclass and the other mail subclasses and special services considered in my testimony.

1           CHAIRMAN GLEIMAN: Does any participant have  
2 additional written cross-examination for the witness?

3           [No response.]

4           CHAIRMAN GLEIMAN: If not, that brings us to oral  
5 cross-examination.

6           Two participants, the Association of Alternative  
7 Postal Systems and American Business Press, have requested  
8 oral cross-examination and McGraw-Hill has requested  
9 followup of the witness.

10           Is there anyone else who wishes to cross-examine  
11 the witness?

12           [No response.]

13           CHAIRMAN GLEIMAN: If not, then we will proceed  
14 with AAPS, Ms. Blair.

15                                   CROSS EXAMINATION

16           BY MS. BLAIR:

17           Q     Good morning, Mr. Bernstein. My name is Bonnie  
18 Blair and I am appearing on behalf of the Association of  
19 Alternate Postal Systems.

20                     Would you turn, please, to page 55 of your  
21 testimony, Table 11?

22           A     I have it.

23           Q     Focusing on the column that's labeled Volume, or  
24 the two columns labeled Volume, are the figures shown in the  
25 volume columns amounts for service provided by the Postal

1 Service?

2 A Yes, they are.

3 Q And focusing specifically on the standard ECR  
4 line, this indicates an increase in volume from 30,986,000  
5 to 42,218,000 as a result of the change to Ramsey pricing;  
6 is that right?

7 A That's correct.

8 Q And again, this would be a shift in volumes of the  
9 service provided by the Postal Service, correct?

10 A I'm not sure I would use the word "shift." It is  
11 an increase in volume.

12 Q Provided by the Postal Service?

13 A Provided by the Postal Service, yes.

14 Q And are these volumes used to calculate the  
15 changes in consumer surplus that are shown in your Table 13  
16 on page 70?

17 A Yes, they are.

18 Q Let me ask you to turn back now to page 68 of your  
19 testimony and in particular I would like you to focus on the  
20 second part of the contribution to consumer surplus that you  
21 discuss at that page, do you see that?

22 A Is that -- the second part, yes, I do see it.

23 Q It starts about line 3.

24 A I see it, yes.

25 Q You talk about the second component of a change in

1 consumer surplus being related to a change in volume; is  
2 that right?

3 A Yes.

4 Q And when volume increases, that contributes to an  
5 increase in consumer surplus, correct?

6 A It does, yes.

7 Q Now the consumption increase that you're referring  
8 to there or a volume increase that you're referring to  
9 there, does that mean an increase in the total use of the  
10 product by consumers?

11 A It means an increase in the volume of standard ECR  
12 mail. That is the product. I'm not sure *what you mean by*  
13 *total use of the product.*

14 Q Back to the increase in volume of ECR mail that we  
15 talked about that's shown in Table 11.

16 A Right.

17 Q Do you know whether any portion of that increase  
18 reflects a change to ECR mail by consumers that previously  
19 were delivering their pieces through some alternate form of  
20 delivery?

21 A I don't know that. It doesn't really matter, in  
22 that the demand curve measures the value of ECR mail to  
23 consumers whether their decision to send more comes from a  
24 decision just to send more mail that they would not have  
25 sent otherwise, or if it is a result of them choosing to  
send mail via the Postal Service instead of some other

1 method doesn't matter, that's all embedded in the demand  
2 curve.

3 Q So that a substantial portion of the shift from  
4 30-some million to 42-some million could be a shift from use  
5 of alternate delivery systems to ECR mail; is that correct?

6 A Well, you ask a substantial portion could be. I  
7 suppose it could. I have no reason to think that a  
8 substantial portion is.

9 Q Do you have any idea one way or the other how  
10 much?

11 A I have no quantification of that; no.

12 Q Let me ask you to look at page 75 of your  
13 testimony.

14 A I have it.

15 Q The sentence that begins on line 10, there is no  
16 economic principle that argues that the price difference  
17 between First Class letters and standard A letters should  
18 equal their cost difference. Do you see that line?

19 A Yes, I do.

20 Q Is equity an economic principle?

21 A Within the context of my testimony, I suppose I  
22 use the terms economic principle and economic efficiency  
23 interchangeably. Whether equity is an economic principle or  
24 not depends I suppose on what you define as the realm of  
25 economics, so I -- some people in some economics textbooks,

1 equity issues are addressed, and I suppose by that measure  
2 then it is an economic principle. But it's not an economic  
3 principle in terms of my viewing it in this testimony.

4 Q Is it an economic principle as you use that term  
5 in the sentence on page 75?

6 A Equity?

7 Q Yes.

8 A No, it is not.

9 MS. BLAIR: I have no further questions, Mr.  
10 Chairman.

11 CHAIRMAN GLEIMAN: American Business Press.

12 No cross examination?

13 Any followup?

14 Mr. Bergin, now's the time.

15 CROSS EXAMINATION

16 BY MR. BERGIN:

17 Q Good morning, Dr. Bernstein. My name is Tim  
18 Bergin. I represent the McGraw-Hill companies.

19 I just wanted to follow up that last line of  
20 questioning a little bit, if I could refer you to page 27 of  
21 your testimony.

22 A I have it here; yes.

23 Q I'm referring to lines 11 through 13.

24 A Yes.

25 Q Now as I understand it, you state there that the

1 greater the leakage for product I, which has the greater own  
2 price elasticity of demand, that shows that raising the  
3 price for product I is, and I quote you, more harmful to  
4 consumers than raising the price of product J, which has a  
5 lower own price elasticity.

6 A Ahh -- yes. Do you want me to elaborate on that  
7 or just agree? I can elaborate. It's more harmful to  
8 consumers in the sense of the harm imposed on consumers  
9 relative to the increase in net revenues that that price  
10 increase causes, so that --

11 Q I think I understand.

12 A Right.

13 Q And I want to focus on this concept of more  
14 harmful to consumers as opposed to the efficiency concept  
15 which you also refer to in this passage.

16 A Okay.

17 Q Now a change in the elasticity -- excuse me, the  
18 low elasticity of product J may simply reflect a lack of  
19 alternatives. Is that not correct?

20 A That might be a factor; yes.

21 Q In other words, a de facto monopoly situation?

22 A That could be the result; yes.

23 Q In which consumers would be subject, not accusing  
24 the Postal Service of this, but of price gouging or abuse?

25 A I wouldn't say that that is consistent with the

1 idea of price gouging or abuse. The demand might be less  
2 elastic for many reasons, one of which might be that there's  
3 a limit ~~or~~ on the alternatives. That doesn't necessarily  
4 lead to a conclusion that there's price gouging,  
5 particularly in a case where the entity, in this case the  
6 Postal Service, is regulated to generate revenues equal to  
7 costs. An unregulated monopolist could then charge an  
8 extremely high price perhaps, but that's not the condition  
9 here.

10 Q Well, I understand, and I was trying to keep it on  
11 a general level.

12 A Well, the term price gouging has no real meaning  
13 in economics. It's a somewhat subjective meaning. A  
14 consumer feels he has been gouged by a muffler repair shop,  
15 but there's no meaning in that in economics.

16 Q If I understand you correctly, you're saying that  
17 in the situation with which we're presented, if the Postal  
18 Service were to take advantage of a de facto monopoly and  
19 raise prices unduly, we have the Commission here to step in  
20 and mitigate the price increase to impose fairness to  
21 counteract perhaps the --

22 A Whether --

23 Q Efficiency considerations.

24 A No, that's not even the case. The efficient  
25 prices are not the prices that an unregulated Postal Service

1 would charge. If the Postal Service could set its own rate  
2 of First Class letters and could do so in a way to maximize  
3 its profits, there was no regulatory constraint on earning  
4 profits, the price would be considerably higher I suspect  
5 than the efficient price.

6 Q Now to continue with your passage on page 27, the  
7 high elasticity of product I may reflect the availability of  
8 suitable alternatives. Is that correct?

9 A Again it might; yes.

10 Q Such that in response to an increase in the price  
11 of I consumers would simply consume more of the alternative  
12 rather than product I.

13 A Well, they would be harmed by that price increase  
14 because the fact that they're consuming product I means they  
15 prefer to consume product I. If the price of product I were  
16 raised, consumption would fall, and conceivably some  
17 consumers would consume another product K, another postal  
18 product or a nonpostal product, if that's what you're  
19 considering. Yes, they would still be worse off, because  
20 they've been forced away from their desired consumption of  
21 product I.

22 Q To an alternative product.

23 A Yes.

24 Q Which is not their first choice.

25 A Right. If people don't consume, they have the

1 money, and the money if they -- the consumers who don't  
2 consume product K, this alternative product, when they don't  
3 consume product I, the money they spent on product I, they  
4 have to consume on something else, whether it's a postal  
5 product or something else. The money doesn't disappear  
6 obviously.

7 Q Well, my question is this. In the case of product  
8 I, I grant you in some sense the consumer is potentially  
9 harmed to some degree by a price change, it has to switch to  
10 an alternative product. In the case of product J, the  
11 consumer has nowhere to go, the price is increased however  
12 much, the consumer is trapped, you have these two different  
13 situations. You know, is it fair to say that in these  
14 situations it's not necessarily more harmful to raise the  
15 price of product I than to raise the price of product J?

16 A Well, let me explain that --

17 Q Or harmful to consumers, I should say.

18 A Right, I understand what you're saying. Let me  
19 explain that in terms of the original statement. It is the  
20 harm to consumers relative to the increase in net revenues  
21 that's generated. That is, we have to be raising prices  
22 above marginal cost to satisfy the break-even constraint.

23 In the case of an elastic product, which either  
24 because of their alternatives or not, when prices --  
25 consider the case of alternatives. When prices increase, a

1 consumer you say can switch to an alternative. In that  
2 sense they are not severely harmed. At the same time,  
3 because they can switch, there isn't an increase in revenue  
4 for the Postal Service, or the increase in net revenue is  
5 small.

6 So the issue is not so much the harm to the  
7 consumer in an absolute sense, but the harm to the consumer  
8 relative to our satisfaction of the break-even constraint.  
9 That's this Ramsey leakage constant idea that looks at the  
10 dollar of harm relative to the, you know, satisfaction of  
11 the revenue constraint. So that is harmful to consumers  
12 because there's very little accomplished in the sense of  
13 satisfying the revenue constraint, and if you're not  
14 satisfying the revenue constraint, you have to keep pushing  
15 up prices until you do. So raising the price of an elastic  
16 product does little to or less to satisfy the revenue  
17 constraint, therefore forcing you to continue to raise  
18 prices, and that is harmful to all consumers as well as the  
19 consumers of this product.

20 Q So If I understand correctly, in your testimony on  
21 the page that we are discussing, you are not referring to  
22 harm to consumers, particular consumers, in an absolute  
23 sense?

24 A It is the harm to consumers, yes, relative to the  
25 satisfaction of the revenue constraint, which is the binding

1 constraint that the Postal Service must satisfy, the  
2 break-even constraint, and so it is a question of, you know,  
3 extending down the simple analysis of what harm is imposed  
4 on consumers as you get to that satisfaction of the revenue  
5 constraint -- so it is a dollar of harm relative to a dollar  
6 of gain in net revenue and that is the sense of something  
7 being harmful.

8       ~~Q~~ If taken to the extreme, if you rose a price of a  
9 product and you received no net revenue for the Postal  
10 Service then even if the harm to the consumer was small, it  
11 accomplished nothing in terms of our ultimate goal of  
12 satisfying the revenue constraint, and so it is a complete  
13 loss to consumers.

14               They pay a price and they get no benefit in the  
15 sense that there is no movement towards satisfying the  
16 revenue constraint.

17       Q Is it fair to say that your concept of harm to  
18 consumers in this context is an economic concept which  
19 considers the revenue effects on the Postal Service as well  
20 the effects directly on the consumer?

21       A Yes. It's an economic concept, the idea of  
22 minimizing the total burden on consumers total to satisfying  
23 the revenue, the break-even constraint of the Postal  
24 Service, so it is both sides of that.

25       Q So when you talk here about harm to consumers, you

1 are not necessarily addressing the concept of equity as a  
2 layman might approach it or a regulator might approach it?

3 A No. I am not sure what -- there are many  
4 different definitions of equity, you know. Within the  
5 economic concept that I use there is this idea of having  
6 this constant leakage, which is an equity concept that at  
7 the margin the burden on consumers relative to the gain in  
8 net revenue is the same for all products.

9 Maybe that is equity, but I can certainly see  
10 there are other definitions of equity which I don't include  
11 in my analysis.

12 Q Thank you, Dr. Bernstein.

13 A Sure. I have to, for the record, you promoted me.  
14 I am not a doctor, but that's all right.

15 CHAIRMAN GLEIMAN: But an almost.

16 THE WITNESS: An almost, yes.

17 CHAIRMAN GLEIMAN: Is there any further follow-up?

18 [No response.]

19 CHAIRMAN GLEIMAN: If not, that brings us to  
20 questions from the bench.

21 There are questions from the bench.

22 I enjoy being exposed to economic theory in my  
23 current job. Sometimes I hear things that I sort of kind of  
24 understand, but on the other hand they're counter-intuitive  
25 because I am not an economic theorist, just a real person

1 who goes to the muffler shop and gets gauged sometimes.

2 [Laughter.]

3 CHAIRMAN GLEIMAN: I make a pretty hefty salary --  
4 not as high as a lot of people in the Postal Service but it  
5 is more than I ever expected to make when I started out.

6 If I go to the muffler shop and get hit up for  
7 \$150 or \$200 bill, I could be pretty upset. I might say I  
8 was gauged.

9 If someone who makes minimum wage goes to the  
10 muffler shop and has to pay that same \$150 or \$200 for the  
11 same type of repair, that person might feel they were  
12 gauged.

13 Does my \$150 to \$200 have the same value?

14 THE WITNESS: Well, certainly it does to the  
15 muffler shop.

16 CHAIRMAN GLEIMAN: What about to me versus the  
17 individual who makes minimum wage? Is a dollar a dollar?

18 THE WITNESS: A dollar is a dollar, yes. Now the  
19 question is are people's feelings about those dollars  
20 affected by how much money they have?

21 I suppose they might be, but I think the example  
22 in terms of postal ratemaking --

23 CHAIRMAN GLEIMAN: In terms not of postal  
24 ratemaking. I am talking about the theories that underlie  
25 Ramsey pricing which discuss economic efficiency.

1           THE WITNESS: I think the dollar is a dollar  
2 concept is important to Ramsey pricing but it is important  
3 to the concept of efficient pricing in the absence of Ramsey  
4 pricing, the idea that price equals marginal cost is  
5 efficient in the competitive market treats dollars of  
6 consumers and dollars of producers as equal dollars.

7           CHAIRMAN GLEIMAN: Without regard to the value to  
8 individual consumers?

9           THE WITNESS: Well, without regard to a subjective  
10 value of individual consumers, yes.

11           The idea that if you decide that a dollar is not a  
12 dollar, then you can argue that, well, if consumer dollars  
13 are more important than producer dollars then prices should  
14 be below marginal cost, and if producer dollars are more  
15 important than consumer dollars, then prices should be above  
16 marginal cost, and then basically you say any price system  
17 is acceptable if you decide that the dollars are weighted in  
18 such a way to make it work out as such.

19           So the dollar is a dollar idea is not something  
20 limited to Ramsey pricing analysis. It is pretty  
21 fundamental to all of economic analysis.

22           CHAIRMAN GLEIMAN: But it doesn't take into  
23 account the value to an individual?

24           THE WITNESS: In terms of what I would consider  
25 fairness --

1 CHAIRMAN GLEIMAN: To society as a whole.

2 THE WITNESS: -- the fairness criteria, which I  
3 think is what you are saying, it does not, and neither does  
4 economics in general.

5 CHAIRMAN GLEIMAN: Okay. Now let's move on to  
6 postal pricing, which you wanted to speak about a moment  
7 ago.

8 In your table you list the after-rates Ramsey  
9 prices, and one of the areas that you have -- you have it  
10 for almost every area -- but you have regular rate  
11 periodical, and the Ramsey price would be substantially  
12 higher.

13 THE WITNESS: Yes. Let me --

14 CHAIRMAN GLEIMAN: I think it is Table 1-A.

15 THE WITNESS: I just want to have it in front of  
16 me. I think Table 1 would do it.

17 CHAIRMAN GLEIMAN: The Ramsey price, and I picked  
18 this one because it is a significant difference --

19 THE WITNESS: Right.

20 CHAIRMAN GLEIMAN: There are others down there  
21 that have equally -- that have large differences, but maybe  
22 not of the same magnitude, but substantial differences  
23 between after rates USPS and after rates Ramsey.

24 THE WITNESS: Yes.

25 CHAIRMAN GLEIMAN: Regular periodicals, if we were

1 to follow the Ramsey formula, the rates that the Postal  
2 Service should be asking for and/or that we should be  
3 recommending would be substantially higher than what we  
4 currently have on the table.

5 THE WITNESS: Yes, that's true.

6 CHAIRMAN GLEIMAN: And you in your testimony speak  
7 about reasons why one might want to deviate, and in this  
8 case the deviation is large part due to the special  
9 recognition that is given to publications in the law.

10 THE WITNESS: I believe so, yes.

11 CHAIRMAN GLEIMAN: Okay. That means that if the  
12 Ramsey rates achieve economic efficiency, move towards  
13 maximum economic efficiency and there is a law which  
14 requires deviation from economic efficiency, then we have a  
15 law which requires us to be inefficient or less efficient  
16 than we would otherwise be in the absence of a provision of  
17 law. Is that correct?

18 THE WITNESS: Yes, probably. I think certainly in  
19 this case with periodicals regular I suppose if the Ramsey  
20 price of periodicals regular for the hypothetical were less  
21 than the Postal Service rate, then the law might be moving  
22 you toward economic efficiency, but certainly in this case,  
23 yes.

24 CHAIRMAN GLEIMAN: But there is a reason for the  
25 law, and I don't expect you to be an expert in it. I don't

1 profess to be an expert in that provision of law or lots of  
2 other provisions of law, but generally the thrust is that  
3 there is some special inherent value to individuals and to  
4 the country as a whole to make information available, and  
5 consequently the law provides that we should give some  
6 special consideration.

7 Now there is no way for Ramsey pricing to take  
8 anything like this into account, is there?

9 THE WITNESS: Conceivably, yes. There is a  
10 concept of a social externality, a positive externality  
11 which could be thought of as saying that the cost of  
12 periodicals regular mail should be offset by some social  
13 gain. That is, there is a -- I don't know off the top of my  
14 head what the cost -- 20 cents postal cost for regular  
15 mail -- but somewhere involved there is some level -- 5  
16 cents is the number I just made up -- social benefit per  
17 periodicals, you know, so I just made it up.

18 Then the cost that you could include in the model  
19 wouldn't be 20 cents. It would be 15 cents. Of course, I  
20 don't see any way that one could quantify that and probably  
21 from a practical perspective the way to deal with these ECSI  
22 considerations is to view the Ramsey price as a price in the  
23 absence of those considerations and then make an adjustment  
24 as warranted.

25 CHAIRMAN GLEIMAN: I understand that and I don't

1 disagree with you in terms of your bottom line that you just  
2 stated, but the point is that the Ramsey concept, the  
3 formulas, do not provide because of their very nature for  
4 non-quantifiable social benefits.

5 THE WITNESS: Yes, I suppose I'll just agree with  
6 that, to move us along.

7 CHAIRMAN GLEIMAN: You will agree?

8 THE WITNESS: I'll agree. As I said, you could  
9 quantify it conceivably by placing a value on those social  
10 benefits and including that formally in the model.

11 CHAIRMAN GLEIMAN: But you didn't do that?

12 THE WITNESS: No, because I didn't have any way of  
13 doing that empirically and I didn't really see that as the  
14 purpose of this exercise.

15 I think that that would be more subjective, as  
16 opposed to what I have done, which is just applying the  
17 formula as it is.

18 CHAIRMAN GLEIMAN: Pick one of your other prices  
19 in that table, one of your other Ramsey prices in that  
20 table -- Parcel Post -- again, which is substantially higher  
21 but not at the same magnitude about the Postal Service after  
22 rates proposal.

23 The Postal Service deviated substantially from  
24 your Ramsey prices. Might one conclude that as a  
25 consequence of their deviation there that the Postal Service

1 prices are less efficient than Ramsey?

2 THE WITNESS: Well, I think you have to look at  
3 the whole pricing schedule, because all the prices are  
4 related by the break-even constraint, but as a general  
5 question, the Postal Service rates are less efficient than  
6 the Ramsey rates.

7 CHAIRMAN GLEIMAN: But you look at the whole  
8 schedule and then you pick and choose where you want to  
9 deviate and why you want to deviate.

10 THE WITNESS: Do I or does someone else?

11 CHAIRMAN GLEIMAN: Somebody picks and chooses.  
12 Somebody at the Postal Service picked and chose. Somebody  
13 at the Rate Commission ultimately will pick and choose or  
14 some bodies at the Rate Commission will pick and choose.

15 THE WITNESS: Yes. I see that as something that  
16 could be done, yes.

17 CHAIRMAN GLEIMAN: In your response to NAA Number  
18 6 -- I will give you a moment to get it if you want.

19 THE WITNESS: Yes.

20 CHAIRMAN GLEIMAN: You said if prices are below  
21 incremental costs for some product, economically efficient  
22 entry could be discouraged. Suppose the incremental cost is  
23 30 cents and the price is 29 cents. Is your principal  
24 concern that a potential competitor might have standalone  
25 costs in between those two marks, say 29-1/2 cents, and he

1 should be allowed to enter, or are there other concerns?

2 THE WITNESS: Well, there's two concerns there. I  
3 suppose the principal concern in an efficiency idea is  
4 exactly what you stated, that there could be a firm with a  
5 cost of 29-1/2 cents less than the Postal Service average  
6 incremental cost, but because the price was set below that  
7 average incremental cost, they were discouraged from  
8 entering the market even though they had, you know, at least  
9 on this product more efficient prices.

10 If you're dealing in the absence of entry then the  
11 incremental-cost test to me is again somewhat more of a  
12 fairness issue, that one product is not covering its  
13 incremental cost, other products are making up for that.  
14 That's not necessarily inefficient if we ignore the entry  
15 issue, but it again is -- may not be considered fair. But  
16 the entry issue is the primary issue in efficiency.

17 CHAIRMAN GLEIMAN: Do I understand correctly that  
18 you are more concerned about the standalone cost to the  
19 potential competitor rather than with the competitor's  
20 incremental cost? And if so, why?

21 THE WITNESS: Well, you know, those are -- let me  
22 back away from those terms. The basic issue is whether a  
23 competing firm could provide the product at a price that was  
24 lower than the Postal Service cost but would not be allowed  
25 to or it would not be profitable to do so because the Postal

1 Service price is set below the Postal Service's incremental  
2 cost. Whether the issue with this other firm relates to its  
3 incremental or stand-alone cost I suppose, you know,  
4 standalone cost means the other firm would only be producing  
5 this product, and I don't know, you know, what the dynamics  
6 there is. I don't know -- the issue is really just a  
7 question of whether you're keeping out another firm that  
8 could be producing.

9 CHAIRMAN GLEIMAN: Could you explain whether the  
10 standalone cost of a potential competitor for a monopoly  
11 product should play the same role in postal pricing as a  
12 standalone cost of a potential competitor for a competitive  
13 product?

14 THE WITNESS: Well, you wouldn't really have to  
15 worry about it -- well, yes you would have to worry about it  
16 on a competitive product. There you would be deterring  
17 entry. In the monopoly product, that gets back to the  
18 question of why these restrictions on entry exist.

19 In the case of, say, First Class letters, if  
20 you -- you can make an economic argument that suppose there  
21 is a firm that had a standalone cost that was less than the  
22 Postal Service cost but they provided only mail to some  
23 people. They engaged in a kind of form of cream-skimming.  
24 So they would come in and only do, you know, certain types  
25 of bulk mailings or certain, you know, regions of the

1 country. Then they might have a standalone cost less than  
2 the Postal Service cost, but that cream-skimming might be an  
3 inefficiency that you would want to deter, because they  
4 would take away all the low-cost mail and leave the Postal  
5 Service with all the high-cost mail.

6 So there's, you know, the question of whether the  
7 competing -- potentially competing firm for the First Class  
8 letters would be required to service all mail, a universal  
9 service at a uniform price as the Postal Service does, or  
10 not. If the hypothetical is there's another firm that could  
11 do everything the Postal Service does in First Class letters  
12 and all the other products for less, then that other firm  
13 should be allowed to do it. But I don't know that that's  
14 really what the hypothetical is.

15 So let me get back to your question. I think the  
16 standalone cost issue is a little different when you have  
17 the prospect of cream-skimming, and so I don't think you can  
18 argue simply that because some firm could provide some, you  
19 know, five-digit automated mail between Chicago and New York  
20 at a lower price than the Postal Service, that it is  
21 inefficient to exclude them from the market.

22 CHAIRMAN GLEIMAN: In discussing Ramsey pricing  
23 and other economic principles, I've been exposed to the idea  
24 that the requirement that all rates cover incremental cost  
25 is a fairness argument and not an economic efficiency

1 argument. In other words, it's unfair to require other  
2 mailers to be worse off because the product in question is  
3 being produced. And I was wondering if you could discuss  
4 the extent to which you agree or disagree with that.

5 THE WITNESS: Well, first of all there is the  
6 efficiency issue regarding entry. To the extent that there  
7 isn't an entry issue, it can be more efficient for a price  
8 to be set below incremental cost in the sense that a Ramsey  
9 price which is based on marginal cost could be less than the  
10 price necessary to satisfy the incremental cost test. And  
11 if entry were not a consideration, that would be more  
12 efficient in the sense of maximizing the consumer surplus.

13 So then the argument for imposing it does rely on  
14 a fairness criteria that as you said some mailers should not  
15 have to make up for what other mailers are not covering, but  
16 that's -- again that's not necessarily the efficient result,  
17 at least in a technical sense -- maybe in a practical sense  
18 identical to the efficient result.

19 CHAIRMAN GLEIMAN: Implicit in some of the  
20 arguments that I've heard over the past 3-1/2 years since  
21 I've been here from some parties who suggest that if only  
22 the prices were set a little bit differently, the rates were  
23 set a little bit differently, they would churn up gobs of  
24 new volume, that the Postal Service should indeed maximize  
25 its volume because this helps everybody because the fixed

1 costs are then spread further and this keeps prices for  
2 everybody lower. Also, you know, at several points in your  
3 testimony you mention the higher volumes associated with  
4 Ramsey solutions. And I was wondering whether you would  
5 take a stab at discussing the relationship between the  
6 Ramsey solutions and the notion of volume maximization in  
7 the setting that we have, which is the break-even  
8 constraint.

9 THE WITNESS: Ramsey pricing is not necessarily  
10 volume maximizing. I suppose if you wanted to maximize  
11 volume, you'd find your most elastic products and price them  
12 at marginal cost and get a lot of volume and then make it up  
13 elsewhere. That's not what happens in Ramsey pricing. It  
14 has a, you know, some tendency in that way in the sense that  
15 more elastic products are priced or given less markup than  
16 less elastic products.

17 But its goal is not volume maximization, nor would  
18 volume maximization be efficient. I don't see it as -- the  
19 idea that more volume is good in the sense that it spreads  
20 the fixed cost is true, but it is not something to be  
21 pursued to the absolute of just maximizing volume.

22 CHAIRMAN GLEIMAN: Maximizing volume does not  
23 equate with the concept of maximizing economic efficiency?

24 THE WITNESS: No, it doesn't. Well, in a  
25 competitive market it does, you know, because volume is

1 maximized where supply and demand intersect, but not in this  
2 case, no.

3 CHAIRMAN GLEIMAN: One more, and it has got a  
4 rather long lead-in. On page 47 of your testimony, you say,  
5 "In addition to covering the product's volume variable cost,  
6 postal prices should generate sufficient revenues to cover  
7 the product's incremental costs. If not, the Postal Service  
8 and mailers would be better off if the product were  
9 discontinued."

10 That is the end of the quote. I would like you to  
11 discuss the following situation.

12 Suppose the revenue for a product is \$100 million  
13 and the incremental cost is \$90 million.

14 Now suppose the product is discontinued and the  
15 revenues and the costs disappear. On first view, it appears  
16 that the Postal Service and the mailers are \$10 million  
17 worse off.

18 Let's suppose as a further reaction a number of  
19 the mailers that were buying the discontinued product begin  
20 to buy another postal product and as a result the revenue of  
21 the Postal Service increases by \$30 million and the cost  
22 only increased by \$10 million. This results in a net gain  
23 of \$20 million from other postal products.

24 On balance, the Postal Service and the other  
25 mailers gain by eliminating the first product even though it

1 was covering its incremental cost.

2 Can you explain why the incremental cost test for  
3 cross subsidy focuses narrowly on the product in question  
4 and does not consider any secondary effects on the Postal  
5 Service when the product in question is eliminated?

6 THE WITNESS: Okay. First, I probably should  
7 correct a statement there that says "if not, the Postal  
8 Service and mailers would be better off if the product were  
9 discontinued."

10 That really should read, "The Postal Service and  
11 other mailers would be better off". Clearly the mailers of  
12 that product are better off if it exists and in fact they  
13 are better off if it is priced below its incremental cost.  
14 They like that price, so that clarification should be here.

15 Now with your question here, where the idea is if  
16 you eliminate a product that was covering its incremental  
17 costs but the volume shifts elsewhere to some benefit, I  
18 think when one talks about incremental costs it is not only  
19 the cost of a product but also a group of products, and I  
20 don't know that this is something that has been done or not,  
21 but one could have the incremental cost of each product and  
22 then pairs of products and triplets of products, and I think  
23 in this hypothetical the incremental cost of a particular  
24 group of products, even though the product is covering its  
25 incremental costs taken on its own, I think by your

1 hypothetical if we combined those two products and  
2 calculated the incremental costs of them as a group, it  
3 might not be covering that, although I am not -- incremental  
4 cost calculations either theoretically or empirically are  
5 not my area of expertise.

6 So I think that that case -- it would seem to me  
7 that that scenario that you have presented is something that  
8 should be captured in an incremental cost of more than one  
9 product, and really that in a way is the full application of  
10 the incremental cost test.

11 I don't -- that is about all I can really say on  
12 that without having either more time to think about it or  
13 more education.

14 CHAIRMAN GLEIMAN: With any luck, I have asked all  
15 the questions Commissioner LeBlanc was about to ask you, but  
16 I'll give him a shot.

17 COMMISSIONER LeBLANC: All but two.

18 CHAIRMAN GLEIMAN: All but two. We generally  
19 don't hold Intervenors' counsel to the number of questions  
20 that they say they are going to ask when they come up to the  
21 counsel's table, but we are going to limit Commissioners to  
22 the number of questions they say they are going to ask.

23 COMMISSIONER LeBLANC: I lied -- no, I'm just  
24 kidding.

25 Basically the Chairman did ask everything I had,

1 but are you then saying that rates should be set above  
2 marginal and incremental costs? Is that your testimony?

3 THE WITNESS: No. Rates should be set above  
4 marginal costs. In most cases these Ramsey rates are above  
5 incremental costs, but in the two cases where they are not  
6 they should be set at incremental cost.

7 The idea is that you are requiring the product to  
8 cover its costs in a way that is as close as possible to the  
9 Ramsey rate. Here is the Ramsey rate down here -- here is  
10 the incremental cost -- so you are moving away from Ramsey  
11 and then this is -- to get the incremental cost, that is the  
12 least you have to move.

13 There is no obligation in efficiency terms to be  
14 above incremental cost, no.

15 COMMISSIONER LeBLANC: Then let me ask you a  
16 question and go another way, coming back to Ramsey pricing.

17 Does Ramsey pricing presuppose an efficient  
18 provider?

19 THE WITNESS: Do you mean that the Postal Service  
20 is efficient in its operations? Is that what are asking?

21 COMMISSIONER LeBLANC: In general.

22 THE WITNESS: In general?

23 COMMISSIONER LeBLANC: Does Ramsey pricing  
24 presuppose an efficient provider?

25 THE WITNESS: I don't know that it does. The

1 costs are the costs and the issue is given these costs, what  
2 is the most efficient way to price.

3 That is a different issue. If you are saying that  
4 there's more efficiencies to be realized than simply these  
5 pricing efficiencies, that may be the case, but I think  
6 whatever rates you set are based on the costs as they are.

7 COMMISSIONER LeBLANC: But they can't, as you just  
8 said, take into consideration other things?

9 THE WITNESS: They?

10 COMMISSIONER LeBLANC: You just said, if I  
11 understood you right, when I asked you the question you said  
12 you have to take the social and other things into effect in  
13 the answer to the question.

14 THE WITNESS: In answer to what question?

15 COMMISSIONER LeBLANC: All right. Let me try it  
16 again, and you answer the question the way you want here.

17 THE WITNESS: Okay.

18 COMMISSIONER LeBLANC: Does Ramsey pricing  
19 presuppose an efficient provider?

20 THE WITNESS: My answer is I don't believe that it  
21 does, that it sets prices that are maximimizing efficiency  
22 given costs and what I was saying is as far as I know the  
23 prices that the Postal Service proposes, the prices, the  
24 Ramsey prices and the prices that you will recommend are all  
25 based on the same costs, so that issue does not appear to me

1 to be an issue, a pricing issue, as far as I know, given  
2 that if we are all using the same costs.

3 The second issue of could costs be more efficient,  
4 that is another issue, but it is not, as far as I know, it's  
5 not a pricing issue.

6 COMMISSIONER LeBLANC: Thank you. Thank you, Mr.  
7 Chairman. I did hold it to two.

8 CHAIRMAN GLEIMAN: Commissioner Haley.

9 COMMISSIONER HALEY: Good morning.

10 THE WITNESS: Is it still morning?

11 CHAIRMAN GLEIMAN: It still is. It just doesn't  
12 seem that way.

13 COMMISSIONER HALEY: I'd like to ask you generally  
14 how do you define Ramsey pricing, just in a broad sense?

15 THE WITNESS: I think it is a pricing system that  
16 maximizes economic efficiency or consumer-producer surplus  
17 subject to certain constraints that as part of those  
18 constraints don't allow you to have the market solution of  
19 price equal to marginal cost, so, you know, a general  
20 textbook idea talks about a break-even constraint.

21 In fact, in my testimony it is a break-even  
22 constraint, and then there is also these markups on the  
23 preferred subclasses and for that matter it is subject to  
24 whatever other constraints -- it might be the incremental  
25 cost tests, things like that, but it is efficient pricing

1 given the set of rules or constraints.

2 COMMISSIONER HALEY: I think you stated to the  
3 Chairman that it does not necessarily maximize volumes, is  
4 that right?

5 THE WITNESS: Right. It does not. In fact, I am  
6 almost certain that it does not.

7 COMMISSIONER HALEY: We have had a lot of  
8 discussion on consumer surplus. Could you kind of interpret  
9 that a little bit for me with reference to the Ramsey  
10 theory?

11 THE WITNESS: Well, consumer surplus is the  
12 difference between what a consumer is willing to pay for  
13 something and what they actually pay for something or the  
14 difference between what they value it and what they pay so  
15 if I value something at \$15 and I pay \$10 I have a surplus  
16 of \$5.

17 Perhaps it is easier to understand what a profit  
18 is for a firm. If it costs me \$5 and I sell it for \$10 I  
19 have a \$5 profit. It is analogous to the profit for the  
20 consumer, only the term is consumer surplus.

21 I would have paid as much as \$15. I only had to  
22 pay \$10, so that \$5 is my consumer surplus.

23 COMMISSIONER HALEY: Okay. Very good. Thank you.

24 CHAIRMAN GLEIMAN: I have to apologize, but your  
25 exchanges with my colleagues has prompted me to ask you yet

1 another question. Commissioner LeBlanc asked you about the  
2 precondition that the producer be efficient as part of the  
3 Ramsey considerations, and you -- again, I don't like to,  
4 I'm concerned about imposing my view of what you said -- but  
5 I thought you said that this really wasn't a consideration  
6 because the focus was on the price side.

7 THE WITNESS: Yes. I don't honestly know all  
8 that's involved in a rate case, but in terms of the idea of  
9 setting prices given costs.

10 CHAIRMAN GLEIMAN: On the other hand in response  
11 to Commissioner LeBlanc -- excuse me, Commissioner Haley --  
12 who asked you several questions, one of which was to tell  
13 him a little bit about what consumer surplus was, you  
14 equated it to producer surplus, and you indicated that, you  
15 know, the easy way to look at it is in the context of  
16 profits by the producer.

17 If you wanted to maximize producer profits,  
18 wouldn't it follow that you would have to have an  
19 efficient -- hopefully, if you're really going to maximize,  
20 the most efficient producer?

21 THE WITNESS: If you're going to maximize producer  
22 surplus, maximize profits, it would seem to me that yes, you  
23 would want to be an efficient producer.

24 CHAIRMAN GLEIMAN: Okay.

25 THE WITNESS: But, you know, there really are

1 no -- there is no producer surplus in this case because of  
2 the break-even constraint. There are no profits. So, you  
3 know, it's not -- if the Postal Service costs were less, for  
4 whatever reason, then prices would be less, Ramsey prices  
5 would be less, your prices would be less. But, you know,  
6 there still would be no producer surplus as long as the  
7 break-even constraint exists.

8 CHAIRMAN GLEIMAN: You're making an assumption  
9 there that the break-even constraint is a snapshot in time?

10 THE WITNESS: Well, yes, it's prices in a test  
11 year that satisfy the break-even constraint; yes. I really,  
12 you know, don't know what the costing, you know, issues are  
13 really in terms of efficiency there.

14 CHAIRMAN GLEIMAN: That suffices, and I don't have  
15 to ask you yet another question.

16 Is there any followup as a consequence of  
17 questions from the bench?

18 If there are none, that brings us to redirect.

19 Mr. Koetting.

20 MR. KOETTING: I would like a little time to check  
21 and see, Mr. Chairman. Five minutes I think should be  
22 sufficient.

23 CHAIRMAN GLEIMAN: Five minutes sounds good to me.  
24 Thank you.

25 MR. KOETTING: It could be even less.

1 [Recess.]

2 CHAIRMAN GLEIMAN: Mr. Koetting.

3 MR. KOETTING: The Postal Service has no redirect  
4 examination of this witness, Mr. Chairman. Thank you.

5 CHAIRMAN GLEIMAN: Thank you, Mr. Koetting, and  
6 thank you, Mr. Bernstein. We appreciate your appearance  
7 here today and your contributions to our record, and  
8 especially for aiding us in improving our understanding of  
9 the Ramsey model and its proper place for consideration in  
10 our deliberations. And if there's nothing further, you're  
11 excused.

12 THE WITNESS: Thank you.

13 [Witness excused.]

14 CHAIRMAN GLEIMAN: Mr. Cooper, I'm ready when you  
15 are.

16 MR. COOPER: Yes, Mr. Chairman, the Postal Service  
17 calls Donald M. Baron to the stand.

18 Whereupon,

19 DONALD M. BARON,

20 a witness, was called for examination by counsel for the  
21 United States Postal Service and, having been first duly  
22 sworn, was examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. COOPER:

25 Q Mr. Baron, I'm handing you two copies of a

1 document entitled direct testimony of Donald M. Baron on  
2 behalf of United States Postal Service marked as USPS-T-17.

3 Are you familiar with this document?

4 A Yes, I am.

5 Q Was it prepared by you or under your direct  
6 supervision?

7 A Yes.

8 Q Do you have any corrections to make at this time?

9 A Yes, I do.

10 Q Would you describe them for the record?

11 A On page 6, line 3, the word "containers" should  
12 read as "receptacles."

13 On page 10, lines 11 and 12, the number 6.34  
14 should read as 63.4.

15 On page 11, line 16, the words "as average load  
16 time" should read "and average load time."

17 And then finally on page 74, line 4, the words  
18 "and rural routes" should read as "and other rural routes."

19 Q Have those corrections been made in the copies  
20 that I handed you?

21 A Yes.

22 Q And with those corrections, if you were to be  
23 giving testimony orally today, is this the testimony that  
24 you would give?

25 A It is.

1 MR. COOPER: Mr. Chairman, I will hand these  
2 documents to the court reporter, and I ask that they be  
3 admitted into evidence.

4 CHAIRMAN GLEIMAN: Are there any objections?

5 Hearing none, Mr. Baron's testimony and exhibits  
6 are received into evidence, and I direct that they be  
7 accepted into evidence, and is our practice, they'll not be  
8 transcribed into the record.

9 [Direct Testimony and Exhibits of  
10 Donald M. Baron, Exhibit No.  
11 USPS-T-17, was marked for  
12 identification and received into  
13 evidence.]

14 CHAIRMAN GLEIMAN: Mr. Baron, have you had an  
15 opportunity to examine the packet of designated written  
16 cross examination that was made available earlier today?

17 THE WITNESS: Yes, I have.

18 CHAIRMAN GLEIMAN: If the questions were asked of  
19 you today, would your answers be the same as those you  
20 previously provided in writing?

21 THE WITNESS: Yes, they would.

22 MR. COOPER: Mr. Chairman, I'll note that in our  
23 review of the package with respect to one interrogatory, NAA  
24 No. 4, which was revised earlier in the proceeding, in  
25 incorporating the revised response into the packet there was

1 some overlap of text, some duplication in text, and I took  
2 the liberty of crossing out the duplication. And that's  
3 reflected in the packet that this witness reviewed.

4 CHAIRMAN GLEIMAN: That's the only correction?

5 MR. COOPER: Yes.

6 CHAIRMAN GLEIMAN: Mr. Cooper, again I want to  
7 thank you for your cooperation in helping us with the  
8 designated written cross. You and your colleagues have made  
9 life a tad easier in that regard, and we do appreciate it.

10 If you would provide two corrected copies of the  
11 designated written cross examination of Witness Baron to the  
12 reporter, I'll direct that they be accepted into evidence  
13 and transcribed into the record at this point.

14 [Designation of Written  
15 Cross-Examination of Donald M.  
16 Baron was received into evidence  
17 and transcribed into the record.]

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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS DONALD M. BARON  
(USPS-T-17)

The parties listed below have designated answers to interrogatories directed to witness Baron as written cross-examination.

<u>Party</u>	<u>Answer To Interrogatories</u>
ADVO, Inc.	ADVO\USPS: Interrogatories T17-1, 4-11. UPS\USPS: Interrogatories T17-1, 2.
Direct Marketing Association, Inc.	NAA\USPS: Interrogatory T17-8 (Aug. 19, 1997) as updated (Sept. 26, 1997).
Magazine Publishers of America	MPA\USPS: Interrogatories T17-1-2, 5-7, 9-13.
Newspaper Association of American	NNA\USPS: Interrogatories T17-1-6, 8-16. ADVO\USPS: Interrogatories T17-1-4. UPS\USPS: Interrogatories T17-1-8.
Office of the Consumer Advocate	ADVO\USPS: Interrogatories T17-1-11. MPA\USPS: Interrogatories T17-1-7, 13. NAA\USPS: Interrogatories T17-1-16. UPS\USPS: Interrogatories T17-1-15.
United Parcel Service	UPS\USPS: Interrogatories T17-1-3 and 5.

Respectfully submitted,

  
Cyril J. Pittack  
Acting Secretary

ADVO/USPS-T17-1. Within USPS LR-H-137, please specify the lines of code in LOAD2OLD.ELAST.CNTL and LOAD2.ELAST.CNTL which describe the following:

- (a) Entry of CCS96 shape volume data into the elasticity calculations.
- (b) All differences in model coefficient estimation between the two programs.
- (c) All differences in marginal cost and elasticity calculations between the two programs.

**RESPONSE:**

(a) The following table summarizes the lines of code in these two programs that enter CCS 96 shape volume data into elasticity calculations:

SAS PROGRAM	STOP TYPE	LINE NUMBERS WHERE CCS 96 DATA ARE ENTERED
LOAD2.ELAST.CNTL	SDR	271-310
LOAD2.ELAST.CNTL	MDR	365-415
LOAD2.ELAST.CNTL	BAM	462-510
LOAD2OLD.ELAST.CNTL	SDR	271-310
LOAD2OLD.ELAST.CNTL	MDR	365-413
LOAD2OLD.ELAST.CNTL	BAM	460-505

(b) There are no differences in model coefficient estimation between the two programs.

(c) There are two differences in marginal cost and elasticity calculations between the two programs. Both differences apply only to the MDR and BAM analyses. First, LOAD2.ELAST.CNTL calculates marginal costs and elasticities of MDR and BAM load time with respect to actual deliveries.

LOAD2OLD.ELAST.CNTL derives neither these estimates; nor does it derive marginal costs or elasticities with respect to possible deliveries.

Thus, the sections of LOAD2.ELAST.CNTL that perform the marginal cost and elasticity calculations - lines 403-415 for MDR and lines 498-510 for BAM - include lines that define the variables MC\_PDS (lines 409 and 503), AVCPDS (lines 415 and 510), and ELASTPDS (also lines 415 and 510). The sections of LOAD2OLD.ELAST.CNTL that perform marginal cost and elasticity calculations - lines 403-413 for MDR and lines 496-505 for BAM - do not include these definitions.

Second, in order to derive marginal costs and elasticities with respect to actual deliveries, LOAD2.ELAST.CNTL sets the deliveries variable equal to average actual deliveries. This is done at lines 205 and 356 for the MDR analysis, and at lines 213 and 453 for the BAM analysis. In contrast, LOAD2OLD.ELAST.CNTL sets the deliveries variable equal to average possible deliveries. This is again done at lines 205 and 356 for MDR. For BAM, the lines are 213 and 451.

ADVO/USPS-T17-2. On page 9, you state that the stops effect is: "the additional time resulting from the conversion of a previously uncovered stop into a covered stop. The activity encompassed by this time increment includes all the work that a carrier performs to prepare for loading receptacles and collecting mail." You describe this as a "preparatory activity" or "preloading activity" that can be "viewed as a constant amount [of time] per stop." Are there non-preloading (e.g., post-loading) activities that may also be view as causing a constant time per stop – such as closing the receptacle after inserting mail, checking for undelivered or misdelivered mail or collection mail, or reviewing the remaining mail in the mailbag or the geographic position on the route to identify the location of the next covered stop? Please discuss your response.

RESPONSE:

I have been told in discussions with city carrier delivery experts that fixed-time at stop is the time taken to prepare for the beginning of the loading and collection activities. Note that even the upper-bound estimates of this time interval, presented in table 1 of my testimony (page 12), show that the fixed-time activity lasts only about one second. Some analysts believe the time period is even shorter. Such a limited time interval obviously greatly constrains the scope of activities conducted. Moreover, recall that fixed-time at stop is independent of the amount of volume loaded. It is the same whether 1 piece or 50 pieces are handled. These factors are inconsistent with the view that fixed-time at stop can include any additional "post-loading carrier functions" beyond pre-loading work. One second is not long enough to accomplish all of these multiple activities.

Finally, note also that for purposes of my analysis, it doesn't really matter when the activities measured by fixed-time at stop take place. The only important issue is whether the method used to measure fixed-time at stop produces an estimate that is truly independent of the total volume loaded and collected at each actual stop. The traditional measure of coverage-related load time - defined as the initial accrued load time minus the product of accrued load time and the aggregate elasticity of load time with respect to the five volume terms - is not independent of total volume loaded at each actual stop. The new measure of fixed time at a stop is independent of total volume loaded.

ADVO/USPS-T17-3. Please consider the fixed stop times for each stop type in Table 1.

- (a) Do you consider these to be "reasonable proxies" for the average of preloading time for each stop? If not, please clarify your definition of what these times represent.
- (b) Please explain whether or not you assume that fixed stop time varies, within a stop type, with type of carrier, type of container, type of receptacle, or position of stop on the carrier's route (e.g. beginning or end of loop).

RESPONSE:

(a) Yes.

(b) Fixed stop time is assumed not to vary, within a stop type, with type of carrier, type of container, type of receptacle, or position of stop on the carrier's route. These factors may affect time spent in activities handling mail or mail-related equipment, which is time that therefore varies with the total mail volume being loaded and collected. Fixed stop time, however, is invariant with respect to total volume loaded. Please see my responses to NAA/USPS -T17-2a and 3c.

ADVO/USPS-T17-4. On pages 16-19, you describe a "new interpretation" of equation (3), particularly with respect to the possible deliveries variables. You state: "Possible deliveries appears as an additional explanatory variable in equation 3 to account for the increase in load time per stop that occurs when the number of deliveries accessed by carriers at a given stop increases. . . possible deliveries operates as an effective proxy for actual deliveries.

- (a) Please explain fully your understanding of the "old interpretation" (or any other alternative interpretation) of the possible deliveries variables.
- (b) Please state whether the interpretations discussed in (a) also apply to the squared and cross-product possible deliveries variables.

RESPONSE:

(a) The old interpretation viewed the possible deliveries variables as control variables only, added to the right hand side of the equations to ensure that the effects of differences in numbers of deliveries across MDR or BAM stops would not be erroneously attributed in the regressions to the five volume variables. This old interpretation did not use the estimated coefficients of the delivery variables to measure the "delivery-coverage" effect of a volume-induced increase in deliveries accessed at a given stop. See my testimony at pages 17-18.

(b) Confirmed. The old interpretation does not use any of the coefficients of the single order, squared, or cross-product terms that include the possible deliveries variable to measure the effects of volume-induced changes in actual deliveries on load-time. However, the old interpretation does use the cross-product coefficients to estimate elasticities of load time with respect to the volume terms.

ADVO/USPS-T-17-5. Referring to equation (3), please confirm the following interpretations. If you cannot, please fully explain your response.

- (a) LT is load time per stop (average actual delivery time at the stop multiplied by number of actual deliveries for at the stop).
- (b)  $V_k$  is volume of k shape per stop (average volume per delivery at the stop multiplied by number of actual deliveries at the stop).
- (c)  $B_k$  and  $B_{kk}$  describe the impact of  $V_k$  on both:
  - (1) Average time per actual delivery on the stop, and
  - (2) Number of actual deliveries per stop.

RESPONSE:

- (a) Confirmed. LT is load time per stop.
- (b) Confirmed.  $V_k$  is volume for k shape mail per stop.
- (c) Not confirmed.  $B_k$  and  $B_{kk}$  measure the change in total load time at the stop that results from a change in  $V_k$ , holding all other volumes and actual deliveries constant.

ADVO/USPS-T-17-6. You describe the "volume effect" on page 6 as "the direct effect of volume on carrier time: as volume increases at deliveries that had already been receiving mail, more load time is required to enter the mail into and to collect mail from containers." Please confirm the following or fully explain your response if you cannot confirm.

- (a) The elasticity of load time with respect to the  $k$ th volume term is the volume effect to which you refer on page 6.
- (b)  $B_k$  and  $B_{kk}$  are used to calculate  $\partial LT/\partial V_k$  ("marginal load time with respect to a change in volume for the  $k$ th volume term") in equations (2) and (7) which, in turn, is used to calculate the elasticity of load time with respect to the  $k$ th volume term.
- (c)  $B_k$  and  $B_{kk}$  are used to calculate the "volume effect."

RESPONSE:

(a) Not confirmed. See my testimony at page 19, lines 1-3. The volume effect referred to on page 6 is the sum of the five elasticities of load time with respect to letters, flats, parcels, accountables, and collections.

(b) Confirmed in the sense that  $\partial LT/\partial V_k$  is used, along with the predicted load time,  $LT$ , and the mean value of  $V_k$ , to derive an elasticity of load time with respect to the  $k$ th volume term.

(c) Confirmed in the sense that  $B_k$  and  $B_{kk}$  are used along with comparable coefficients for the other volume terms, the mean values of all the right-hand side variables in the regression, and the predicted load time to derive the volume effect, which is the sum of the five elasticities with respect to volume.

Note also that the above question quotes a sentence from page 6, lines 1-3 of my testimony. This sentence contains an error. The word "containers" at the end of the sentence (line 3) is incorrect; it should be replaced with the word "receptacles."

## Response of Postal Service Witness Baron to Interrogatory of ADVO, Inc.

ADVO/USPS-T17-7. Please refer to Equation (7) and your statement on page 19 that: "The delivery effect is properly measured as the second line of equation 7."

(a) Please state how the two elasticities were calculated and identify the sources of the data used and lines of code which calculate the elasticities:

$$(1) (\partial LT / \partial AD) / (LT / AD)$$

$$(2) (\partial AD / \partial V) / (AD / V)$$

(b) Please confirm that the elasticities in (a) were multiplied together to develop the delivery effect elasticities shown in Tables 6 and 7. If you cannot confirm, explain how the delivery effect elasticities were calculated and why.

(c) Please specify the lines of code in USPS LR-H-137 which enters the two elasticities into the program and multiplies them together to develop the "delivery effect" as specified in the second line of equation 7.

RESPONSE:

(a) The elasticity  $(\partial LT / \partial AD) / (LT / AD)$  was calculated for MDR and BAM stops in the program LOAD2.ELAST.CNTL, documented in USPS LR-H-137. For each stop type, this program first estimates the load-time equation, defined as equation 3 at page 8 of my testimony. This estimation is done at lines 317-323 for MDR stops, and at lines 422-428 for BAM stops. At lines 393-401 and line 409, the program substitutes mean values into the right-hand side variables in the MDR regression to compute predicted values for MDR load time and for the partial derivative of load time with respect to actual deliveries. These values are combined with the mean of MDR actual deliveries in line 415 to produce the MDR elasticity of load time with respect to actual deliveries.

For BAM stops, predicted values for load time and for the partial derivative of load time with respect to actual derivatives are calculated at lines 489-496 and line 503. These are combined with the mean value for actual BAM deliveries in line 510 to produce the BAM elasticity of load time with respect to actual deliveries.

The elasticity  $(\partial AD / \partial V) / (AD / V)$  was calculated for MDR and BAM stops in the program EXP.TPANEL.DELS.CNTL, documented in USPS LR-H-139. For

each stop type, this program first estimates the actual deliveries equation, defined as equation 5 on page 17 of my testimony. This estimation is performed at lines 96-116 for MDR stops, and at lines 291-310 for BAM stops. The next step is to estimate the five separate elasticities of actual deliveries with respect to the five volume terms. This is done at lines 142-178 for MDR stops and lines 335-371 for BAM stops. The total or aggregate elasticity of actual deliveries with respect to volume is then defined as the sum of these five elasticities, at lines 180-181 for MDR stops, and at lines 373-374 for BAM. The calculation procedure first computes predicted load times and partial derivatives of load time with respect to the five volume terms through substitution of mean values into the right hand side variables in the MDR and BAM regressions. These predicted load times and partial derivatives are combined with the means for the five volume terms to derive the five elasticities with respect to these volumes, which are then summed to derive the aggregate elasticities.

(b) Confirmed.

(c) The "delivery effect" is not calculated in USPS LR-H-137. It is calculated in tables 6 and 7 of my testimony through multiplication of elasticity (1) by elasticity (2). For illustration, consider the MDR calculations. USPS LR-H-137 calculates an elasticity of MDR load time with respect to actual deliveries (elasticity (1)) equal to 0.45998. This is reported on page 54 of LR-H-137. USPS LR-H-139 calculates an aggregate elasticity of MDR deliveries with respect to volume equal to 0.166797 (elasticity (2)), as reported on page 34 of that library reference. The product of 0.45998 and 0.166797 equals the MDR delivery-effect elasticity, .07672, which is shown in table 6 on page 22 of my testimony.

ADVO/USPS-T17-8. On page 16 of your testimony, you state:

"Possible deliveries appears as an additional explanatory variable in equation (3) to account for the increase in load time per stop that occurs when the number of deliveries accessed by carriers at a given stop increases. This increase in load time might occur even if total volume delivered to the entire stop remains constant."

- (a) Do you envision a load time per stop/actual deliveries relationship similar to the USPS run time/actual stops relationship developed from the FAT/CAT data base (i.e., as actual stops/actual deliveries increase, actual run-time/load-time increase also)? Please explain.
- (b) Do you view an increase in actual deliveries as a cause for increased load time on a stop (separate from increased load time resulting from increased volume on already covered deliveries)? Please explain.
- (c) Refer to your calculation of a separate deliveries volume variability through the chain rule on page (6) of your testimony. Do you base this calculation on your view that volume is the indirect cause of additional "accesses" to delivery points (i.e., actual deliveries) and therefore the additional load time required? Please explain.
- (d) Are the estimated "delivery effect" variabilities in Tables 6 and 7 intended to reflect the variability of load time with respect to actual deliveries? Please explain.

RESPONSE:

- a. The relationship is similar in certain ways. The load time per stop/actual deliveries relationship can be viewed as the deliveries effect - the increase in time resulting from the accessing of a new delivery at an existing stop. This effect is similar to the run-time/actual stops relationship, which can be viewed as the increase in carrier time that results solely from accessing a whole new stop. Both effects are measuring the additional time of just the new access, and they do not depend on the amount of mail going to that new access.
- b. Yes. Accessing a new delivery at a given stop takes some amount of time that is independent of how much total mail volume is ultimately loaded at that new delivery.
- c. This calculation is measuring the elasticity of load-time with respect to volume specifically through the effect of a marginal increase in volume on actual deliveries. Thus, the calculation is explicitly accounting for only that increase in actual deliveries caused by volume growth.

d. They are intended to be estimates of the elasticity of load time with respect to an increase in volume strictly through the positive effect of that increase on actual deliveries.

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5

ADVO/USPS-T17-9. Please consider the functional specification  $G(D(V),V)$  which explains load time on a multiple delivery stop as a function of the number of actual delivery points on the stop ( $D$ ) and volume on the stop ( $V$ ). Actual deliveries are also explained by volume through the function  $D(V)$ .

- (a) Under these assumptions and ignoring variables for containers and receptacles, do you accept that load time on the stop can be explained fully by stop volume through the following function:

$$L = G(D(V),V)$$

Please explain your response.

- (b) Consider another function  $H(V)$  such that  $L=H(V) = G(D(V),V)$ . Please confirm that the marginal load time cost with respect to volume is then:

$$\begin{aligned} dL/dV &= dH(V)/dV \\ &= dG(D,V)/dV \\ &= [(\partial G / \partial D) * d(D) / dV] + (\partial G / \partial V). \end{aligned}$$

If not, please explain why not.

- (c) Please confirm that load time volume variability is then given by:

$$\begin{aligned} (dL/dV)*(V/L) &= (dH(V)/dV)*V/H(V) \\ &= (dG(D,V)/dV)*V/G(D,V) \\ &= [(\partial G/\partial D)*d(D)/dV]*V/G+(\partial G/\partial V)*V/G. \\ &= [(\partial G/\partial D)*D/G]*[(d(D)/dV)*V/D]+(\partial G/\partial V)*V/G. \end{aligned}$$

If not, please explain why not.

- (d) From (c) above, do you agree that the following two load time volume variability expressions are equivalent?

$$(dH(V)/dV)*V/H(V) = [(\partial G/\partial D)*D/G]*[(d(D)/dV)*V/D] + (\partial G/\partial V)*V/G.$$

If not, please explain why not.

(e) Please confirm that adding the term  $[(\partial G/\partial D)*D/G]*D/G*[(d(D)/dV)*V/D]$  to both sides of the expression in (d) inflates load time variability for the multiple delivery stop by double counting the term. If you cannot confirm, please explain.

**RESPONSE:**

- (a) Confirmed. This is a valid functional representation of the load time – volume relationship. However, I reserve judgement as the validity of any explicit specification of the function or any regression estimates based on this specification.
- (b) Confirmed.
- (c) Confirmed.
- (d) Confirmed.
- (e) Confirmed. Please note that no such double counting occurs in my calculations of MDR and BAM load-time volume variabilities. The expression shown in (d) is equivalent to equation (7) at page 18 of my testimony.

*f*  
*f*

ADVO/USPS-T17-10. On page 16 of your testimony you state:

*"The only reason possible deliveries instead of actual deliveries appears on the right hand side of equation (3) is that the 1995 study that produced the data to estimate the load time equations recorded only possible deliveries."*

- (a) Please compare two multiple delivery stops, A and B, with the same volume level and actual number of deliveries. However, possible deliveries on stop B are twice those on stop A. Would you expect load time on each of the stops to be the same? Please explain fully.
- (b) Please confirm that the number of possible stops per FAT/CAT route is included as a variable in FAT/CAT run time regressions to account for the possibility of greater stop time and distance covered in delivering mail as possible stops increase. If you cannot confirm, please explain fully.
- (c) Please confirm that delivery volume on a stop does not cause possible deliveries at that stop but does cause actual deliveries. If you cannot, please explain fully.

**RESPONSE:**

(a) No. Note, however, that this hypothetical is rarely observed in the actual FY 1996 CCS data. For both MDR and BAM stops, actual deliveries are highly correlated with possible deliveries. See my response to UPS/USPS-T17-7(a).

(b) Not confirmed. The number of actual stops per FAT/CAT route is included as a variable in FAT/CAT running time regressions to account for the greater stop time and distance covered in delivering mail as actual stops increase. Please see page 46 of my testimony. However, possible stops could serve as an effective proxy for actual stops in estimating a running time regression, if actual stops data were not available, since possible and actual stops are also highly correlated.

(c) Confirmed. Volume growth will not cause possible deliveries to increase, but it will cause some previously uncovered possible deliveries to become actual deliveries.

ADVO/USPS-T17-11. In your response to ADVO/USPS-T17-1 you state:

"... there are two differences in marginal cost and elasticity calculations between the two programs... First, LOAD2.ELAST.CNTL calculates marginal cost and elasticities of MDR and BAM load time with respect to actual deliveries... Second, in order to derive marginal costs and elasticities with respect to actual deliveries, LOAD2.ELAST.CNTL sets the deliveries variable equal to actual deliveries... In contrast, LOAD2OLD.ELAST.CNTL sets the deliveries variable equal to average possible deliveries."

- (a) Please confirm that the LTV model was estimated using possible deliveries rather than actual deliveries. If you cannot, please explain why.
- (b) Please confirm that if actual deliveries instead of possible deliveries data were used to develop the load time cost/volume functions, this procedure would have changed coefficient estimates for all variables in the LTV model. If you cannot, please explain why.
- (c) Please confirm that estimated load time is less when estimated using average actual deliveries than when using average possible deliveries. If you cannot, please explain why.
- (d) Please confirm that estimated average shape volume load time (as used in the shape variability calculations) is less when estimated with average actual deliveries than when estimated with average possible deliveries. If you cannot, please explain why.
- (e) Please confirm that the marginal shape volume load time (as used in the shape variability calculations) is not changed by the use of actual deliveries instead of possible deliveries. If you cannot, please explain why.
- (f) Please confirm that the increase in the shape volume variabilities appearing in TABLES 6 and 7 of your testimony over the shape volume variabilities appearing in TABLES 10 and 11 is completely due to your substitution of average actual deliveries per stop for average possible deliveries per stop in the total per stop load time calculation for SDR and BAM stop types. If you cannot, please explain why.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed. If actual deliveries data were available, and if those data were used to estimate the load-time regressions, the resulting coefficients for the right-hand-side variables would be slightly different. However, the possible deliveries variable is highly correlated with actual deliveries, and serves as an effective proxy for actual deliveries.

Therefore, the effect on coefficient estimates from using possible deliveries rather than actual deliveries is likely to be quite small.

(c) Confirmed.

(d) Confirmed. However, I am assuming here that there is no difference between "estimated load time" as defined in part (c) to this question, and "estimated average shape volume load time," as defined in this part of the question.

(e) Not confirmed. The marginal shape volume load times are changed by the use of actual deliveries instead of possible deliveries because the squared deliveries variables on the right-hand-sides of both the MDR and BAM regressions make marginal load times dependent upon the value assigned to deliveries.

(f) Confirmed. Please see my response to NAA/USPS-T17-6, parts (a) through (d).

**MPA/USPS-T17-1. Please refer to page 72, lines 16-18 of your testimony. Please confirm that the only change in the rural carrier costing methodology from that used to develop the FY 1996 Cost Segments and Components Report to the one proposed in this case is "a modest change in this traditional volume variability calculation. It proposes to no longer account for route reclassifications that occur in response to large discrete volume and workload changes." If not confirmed, please explain all other changes proposed in this case to the rural carrier costing methodology.**

**RESPONSE:**

**Confirmed in the sense that the change referred to in the section quoted from my testimony is the only proposed change in the volume variability calculation. My testimony on rural carriers is concerned solely with the issue of how to measure volume-variable costs, not with how volume-variable costs should be distributed to classes and subclasses of mail. I am unaware of any changes that may have occurred in the distribution procedure.**

5  
5

**MPA/USPS-T17-2. Please refer to Fiscal Year 1996 Cost Segments and Components and Base Year 1996 Cost Segments and Components.**

- (a) Please confirm that the Periodical class share of rural carrier attributable costs from the FY 1996 Cost Segments and Components is 9.3 percent.**
- (b) Please confirm that the Periodicals class share of rural carrier attributable costs from the Base Year 1996 Cost Segments and Components is 10.4 percent.**

**RESPONSE:**

- (a) Confirmed.**
- (b) Confirmed.**

**MPA/USPS-T17-3. Please confirm that, according to your testimony, each class and subclass of mail should receive the same percentage of BY 1996 volume-variable rural carrier costs as it received under the previous costing methodology. If not confirmed, please explain, and provide all relevant data.**

**RESPONSE:**

**Not confirmed. My testimony does not address the issue of how volume-variable rural carrier costs should be distributed to classes and subclasses.**

MPA/USPS-T17-4. If you were able to confirm MPA/USPS-T17-2 and 3, please explain how both statements can be true.

RESPONSE:

Not applicable. T17-2 is confirmed, but T17-3 is not confirmed.

**MPA/USPS-T17-5. Please confirm that, all else being equal, if the volume variability of the time taken to deliver a letter is less than 100 percent, as the number of pieces delivered by a rural carrier increases, the average time that the carrier spends to deliver a letter should decrease.**

**RESPONSE:**

**Confirmed. Note, however, that in the rural carrier analysis, the time taken to deliver a letter is defined as the evaluation factor of 0.0791 minutes per letter delivered. This time allowance factor does not change as the number of letters delivered increases. Therefore, the volume variability of just the time that is taken to deliver a letter with respect to the number of letters delivered is 100 percent. It is only the volume variability of total rural carrier time spent over all activities combined that is less than 100 percent, due to the presence of fixed evaluation factors.**

**MPA/USPS-T17-6. Please confirm that, all else being equal, if the number of letters delivered on an average rural carrier route increases between revisions of the evaluation factors, and the volume variability of the time taken to deliver a letter is less than 100 percent, the evaluation factor for delivering a letter should decrease from the earlier revision to the latter revision.**

**RESPONSE:**

Confirmed, with the qualification that the volume variability of time taken just to deliver letters with respect to number of letters delivered on rural routes has not, to my knowledge, ever been estimated. If the volume variability of just the time that is taken to deliver a letter with respect to letters delivered is indeed less than 100 percent, then each increase of one new letter delivered will require a smaller increase in letter delivery time than did the previous increment of one letter delivered. This declining marginal delivery time would mandate a corresponding reduction in the evaluation factor for delivering a letter.

**MPA/USPS-T17-7. Assume for purposes of this question that rural carriers are paid in the same way that city carriers are paid.**

- a. Do you believe that the volume variability for delivery of a piece of mail of a particular shape should be similar for a rural route and for a curbside city route? Please explain your response.**
- b. If no to a., do you believe that the volume variability for delivery of a piece of mail of a particular shape should be higher or lower for a rural route than for a curbside city route? Please explain your response.**

**RESPONSE:**

First, it should be noted that rural carriers are not paid in the same way that city carriers are paid.

- a. Yes. Rural routes are operationally similar to curblines city routes. Both primarily serve single delivery residential stops. Both have lower access costs per delivery than do foot and park & loop city routes. Moreover, if rural carriers are paid in the same way as city carriers are paid, then, presumably, the same methodologies currently used to measure city carrier volume variabilities would also be applied to rural routes. In particular, rural carrier costs would be split into load-time, running time, and street support components, and running time costs would be further split into fixed route time and access time. The volume variabilities of the load time and access time on the rural routes would, in this case, be similar to those on curblines city routes. Furthermore, the volume variabilities for street support costs would also be similar, since these would be based on the load and access variabilities.**
- b. Not applicable.**

Response of the United States Postal Service  
to  
Interrogatory of MPA  
(Redirected from Witness Baron, USPS-T-17)

MPA/USPS-T17-9 Please disaggregate the number of routes and rural carrier cost by type (e.g., H, J, K, auxiliary, mileage).

Response:

The number of routes and the rural carrier salary costs as of the end of fiscal year 1996 are listed in the following table.

Route Type	Number of Routes	Salary Costs (000)
H	5,297	1,894,539
J	4,868	189,973
K	38,484	192,102
Mileage	90	3,719
Auxiliary	8,915	163,574
Unknown		65,626
TOTAL	57,654	2,509,533

The rural carrier salary costs include salaries, holidays, and leave. Benefit costs are not available by route type and are not included. Salary costs in the 'Unknown' category are for training and auxiliary assistance and could not be matched to route type.

**MPA/USPS-T17-10.** Please provide documentation on how the Postal Service calculated the salary of an individual rural carrier for FY 1996. Include in this documentation a formula that derives annual rural carrier salary for an individual route from the route evaluation item workload and evaluation factors on that route. Also, please confirm that the data used to calculate FY 1996 workload for evaluated routes was from the "route evaluations...done over a four week period in the fall of 1995." [LR-H-192, Page 3]

**Response to MPA/USPS-T17-10**

The Postal Service based FY 1996 rural carrier salaries on route evaluations conducted in the fall of 1995. The evaluation process begins with a four week mail count conducted in accordance with Chapter 5 of Handbook PO-603, *Rural Delivery Carrier Duties and Responsibilities* (see Attachment 1 of the response to MPA/USPS-T17-12a). For each of the twenty four days in the count each evaluation workload item is recorded on a PS Form 4239, *Rural Route Count of Mail* (see Attachment 1 to this response). At the end of the second and fourth weeks of the count, the information from each of the daily PS Forms 4239 is transferred to a PS Form 4241, *Rural Delivery Statistics Report* (see Attachment 1, page 7 of the response to MPA/USPS-T17-12a). Upon the completion of the four week count, the information contained on the two PS Forms 4241 is recorded on PS Form 4241-X, *Rural Delivery Statistics Summary Report* (see Attachment 2 to this response). The data from the PS Form 4241-X is electronically submitted to the Minneapolis Information Service Center where it is used to generate PS Form 4241-A, *Rural Route Evaluation* (see Attachment 3

Response of the United States Postal Service  
to  
Interrogatory of MPA  
(Redirected from Witness Baron, USPS-T17)

5150

to this response). PS Form 4241-A is the worksheet that calculates the route time and salary for an individual route. To determine route time, counts for each evaluation workload item are applied to its respective evaluation factor and then summed. Salaries for individual routes are then determined by applying the route time to the appropriate step on the Rural Carrier Evaluated Schedule (see Attachment 4 to this response).





OFFICE: \_\_\_\_\_ ROUTE: \_\_\_\_\_ EFF: \_\_\_\_\_  
 LENGTH IN WEEKS: \_\_\_\_\_ BOXES/MILE: \_\_\_\_\_ HIGH DEN: \_\_\_\_\_

EM	REF	DATA DESCRIPTION	OFFICE TIME ALLOW	ROUTE TIME ALLOW	OFFICE TIME	ROUTE TIME
1		ROUTE LENGTH MILES		# x 12.0		
2		NON-REGULAR BOXES		# x 2.0		
3		L RTE REGULAR BOXES		# x 2.0 x 0.82		
4		CENTRALIZED BOXES		# x 1.0		
6		NDCBU BOXES		# x 1.0		
6		PARCEL LOCKERS		# x 2.0		
7	A	LETTER SIZE	(# / L) x 0.0825			
8	B	SECTOR SEGMENT LTRS	(# / L) x 0.0444			
9	C	PAPERS, MAGS, CATS	(# / L) x 0.125			
10	D	PARCELS	(# / L) x 0.333	(# / L) x 0.167		
11	E	BOX HOLDERS	(# / L) x 0.04			
12	F	REG CERT INS SPEC EX	(# / L) x 1.0	(# / L) x 5.0		
13	G	COD CUSTOMS DUE DEL	(# / L) x 1.5	(# / L) x 4.0		
14	H	POSTAGE DUE	(# / L) / 5 ROUND TO NEXT MIN.			
15	I	CHANGE OF ADDRESS	(# / L) x 2.0			
16	J	MARK-UP	(# / L) x 0.25			
17	K	FORMS 3821	(# / L) x 2.0			
18	L	DPS LETTERS		(# / L) x 0.0333		
19	M	M.O. APPLICATIONS	(# / L) x 1.5	(# / L) x 2.0		
20	N	LETTER SIZE & FLATS COLLECTED	(# / L) x 0.04			
21	O	ORD INS PP ACCEPTED	(# / L) x 2.0	(# / L) x 2.0		
22	P	REG & CERT COLLECTED		(# / L) x 2.0		
23	Q	LOADING IN ACT MINUTES	# / L			
24	R	OTHER SUITABLE ALLOW	# / L			
25	S	ADDL TIME FOR USPS VEHICLE ROUTE	((RT MI x 5) / 100) x 4.5 = TOT IF < 6, 30 MIN IF >= 6, TOT + 24			
26	S	L RTE PURC STAMP STOCK	(# / L) x 5.0			
27	S	NON-L STAMP HANDLING	30 MIN. (15 TRI WEEK)			
28		STRAPPING OUT TIME	((A + B + C - J) / L) x 0.0166			
29	T	L RTE RETURN RECEIPT	(# / L) x 0.25			
30		PERSONAL TIME	30 MIN. (15 TRI WEEK)			
31	U	AUTH DAILY DISMOUNTS		(# / L) x 0.1		
32	V	DISMOUNT DISTANCE		(# / L) x 0.00264		
33	2C	LOCK POUCH STOPS		# x 30 (ELSE MONETARY)		
34	2D	MAIL WITHDRAWAL	30 (YES); 0 (NO)			
		WEEKLY TOTALS				
		TIME IN STD: MIN				

TOTAL ROUTE TIME: HOURS \_\_\_\_\_ MIN \_\_\_\_\_ ( \* => BACK OFF FROM BOX FACTOR TIME)  
 STOPS: \_\_\_\_\_ DAILY EM RATE: \_\_\_\_\_ HIGH OPTION: \_\_\_\_\_ ROUTE EVAL: \_\_\_\_\_ SALARY: \_\_\_\_\_  
 ASSIGNED CARRIER: \_\_\_\_\_ MILEAGE: \_\_\_\_\_ ROUTE EVAL: \_\_\_\_\_ SALARY: \_\_\_\_\_  
 STEP: \_\_\_\_\_ VOLUME FACTOR - TIME = OFFICE + ROUTE \* \* \_\_\_\_\_ TOTAL BOXES: \_\_\_\_\_ VOL FACTOR: \_\_\_\_\_

Rural Carrier Evaluated Schedule  
Full-Time Annual Basic Rates  
Effective March 16, 1996 (PP 7-96)

RSC R

Hour	A	B	C	1	2	3	4	5	6	7	8	9	10	11	12
12	7,240	8,052	8,674	9,305	9,987	9,487	8,578	8,668	8,762	8,853	8,942	10,035	10,125	10,217	10,307
13	7,841	8,726	9,398	10,061	10,180	10,277	10,375	10,473	10,571	10,671	10,771	10,868	10,966	11,063	11,161
14	8,445	9,396	10,122	10,855	10,982	11,069	11,174	11,279	11,389	11,495	11,600	11,706	11,813	11,917	12,027
15	9,049	10,066	10,846	11,633	11,746	11,861	11,974	12,088	12,201	12,316	12,427	12,539	12,658	12,766	12,882
16	9,651	10,738	11,668	12,405	12,520	12,652	12,771	12,894	13,014	13,135	13,258	13,379	13,500	13,621	13,741
17	10,255	11,410	12,290	13,185	13,309	13,440	13,589	13,697	13,827	13,958	14,083	14,210	14,342	14,472	14,598
18	10,858	12,080	13,013	13,957	14,094	14,232	14,368	14,506	14,641	14,778	14,915	15,053	15,190	15,328	15,461
19	11,462	12,751	13,735	14,733	14,878	15,021	15,165	15,308	15,452	15,599	15,742	15,884	16,029	16,172	16,314
20	12,066	13,422	14,460	15,512	15,663	15,814	15,964	16,119	16,271	16,421	16,575	16,727	16,877	17,026	17,183
21	12,666	14,094	15,183	16,285	16,442	16,603	16,761	16,921	17,079	17,239	17,398	17,555	17,717	17,875	18,034
22	13,270	14,765	15,906	17,062	17,226	17,394	17,557	17,723	17,891	18,058	18,223	18,386	18,554	18,720	18,887
23	13,873	15,435	16,628	17,833	18,011	18,184	18,357	18,532	18,704	18,882	19,057	19,229	19,404	19,576	19,750
24	14,477	16,102	17,347	18,611	18,790	18,970	19,152	19,333	19,515	19,697	19,878	20,058	20,242	20,422	20,605
25	15,079	16,779	18,079	19,385	19,576	19,765	19,955	20,142	20,332	20,523	20,713	20,901	21,092	21,280	21,469
26	15,683	17,449	18,796	20,164	20,358	20,556	20,751	20,950	21,143	21,341	21,538	21,733	21,931	22,126	22,321
27	16,287	18,110	19,519	20,937	21,140	21,348	21,551	21,758	21,960	22,167	22,369	22,571	22,780	22,983	23,187
28	16,889	18,788	20,241	21,711	21,921	22,135	22,345	22,559	22,767	22,980	23,194	23,404	23,618	23,826	24,039
29	17,493	19,463	20,963	22,485	22,706	22,928	23,145	23,365	23,582	23,807	24,027	24,243	24,465	24,681	24,901
30	18,096	20,135	21,691	23,266	23,491	23,721	23,945	24,171	24,399	24,626	24,852	25,079	25,307	25,535	25,760
31	18,699	20,803	22,412	24,038	24,275	24,509	24,744	24,976	25,213	25,450	25,686	25,921	26,157	26,397	26,623
32	19,302	21,472	23,132	24,815	25,056	25,298	25,538	25,781	26,022	26,266	26,508	26,747	26,991	27,234	27,474
33	19,905	22,145	23,857	25,586	25,837	26,089	26,338	26,590	26,839	27,090	27,341	27,587	27,841	28,090	28,340
34	20,510	22,818	24,530	26,364	26,622	26,879	27,134	27,392	27,650	27,908	28,165	28,419	28,680	28,934	29,194
35	21,111	23,487	25,304	27,138	27,407	27,672	27,937	28,201	28,466	28,734	29,000	29,262	29,531	29,793	30,058
36	21,715	24,156	26,027	27,915	28,184	28,462	28,731	29,002	29,277	29,544	29,821	30,095	30,367	30,638	30,910
37	22,319	24,829	26,747	28,690	28,971	29,252	29,532	29,810	30,092	30,375	30,655	30,935	31,218	31,498	31,774
38	22,922	25,500	27,470	29,466	29,754	30,041	30,328	30,619	30,902	31,192	31,480	31,764	32,056	32,342	32,628
39	23,525	26,172	28,193	30,238	30,534	30,833	31,128	31,425	31,721	32,019	32,313	32,606	32,905	33,198	33,493
40	24,128	26,840	28,915	31,016	31,318	31,622	31,923	32,227	32,529	32,832	33,136	33,437	33,742	34,043	34,346
41	24,733	27,516	29,639	31,817	32,122	32,428	32,731	33,037	33,342	33,648	33,954	34,261	34,567	34,872	35,178
42	25,337	28,186	30,365	32,618	32,926	33,235	33,541	33,848	34,154	34,461	34,768	35,074	35,380	35,684	35,989
43	25,941	28,856	31,095	33,419	33,730	34,042	34,351	34,661	34,970	35,279	35,588	35,896	36,204	36,511	36,818
44	26,545	29,526	31,824	34,220	34,534	34,849	35,161	35,474	35,785	36,096	36,406	36,715	37,024	37,331	37,638
45	27,149	30,196	32,553	35,021	35,338	35,656	35,971	36,287	36,601	36,916	37,229	37,541	37,853	38,164	38,474
46	27,753	30,866	33,282	35,822	36,142	36,463	36,781	37,100	37,417	37,734	38,050	38,365	38,680	39,000	39,318
47	28,357	31,536	34,011	36,623	36,946	37,270	37,591	37,914	38,235	38,556	38,876	39,195	39,514	39,833	40,151
48	28,961	32,206	34,740	37,424	37,750	38,076	38,403	38,729	39,054	39,379	39,702	40,024	40,345	40,665	40,984

Note: At 42 hours, this schedule reflects the \$104 per year COLA increase effective 2/16/96.

ATTACHMENT 4  
MPA/USPS-T17-10

Response of United States Postal Service  
To Interrogatories of MPA  
(Redirected from Witness Baron USPS-T-17)

5155

MPA/USPS-T17-11. The following questions refer to the evaluation factors.

- a. When was the last time that the evaluation factors were revised?
- b. How often does the Postal Service revise its evaluation factors?
- c. When will the next revision of evaluation factors by the Postal Service occur?

MPA/USPS-T17-11 Response:

- a. The last time there was any change in rural standards was a change to the stamp stock allowance for rural routes. A memorandum of understanding was signed during the negotiation of the 1995-1999 agreement with the National Rural Letter Carrier's Association which established a single stamp allowance for all routes. This change went into effect on October 26, 1996.
- b. As needed.
- c. No changes are currently planned.

Response of United States Postal Service  
to Interrogatories of MPA  
(Redirected from Witness Baron USPS-T-17)

5156

MPA/USPS-T17-12

a. Please provide the definitions of letters, flats, and parcels used for determining the evaluation factor and average value figures provided on this worksheet.

b. Please provide the average value and evaluation factor for the past ten years for each route evaluation item listed in W/S 10.1.1

MPA/USPS-T17-12 Response:

a. See Attachment 1 to this response.

b. See Attachment I, parts a-e, to this response for the W/S 10.1.1

worksheets for Fiscal Years 1992 - 1996. Fiscal Year 1992 was the first year in which the Postal Service performed these calculations in spreadsheet format.

These spreadsheets do not exist for the earlier years.

## ALL OFFICES WITH RURAL DELIVERY

## National Count of Mail on Rural Routes

In accordance with Article 9.2.C.3.a(2) of the 1995 National Agreement between the Postal Service and the National Rural Letter Carriers' Association (NRLCA), a 24-day National Count of Mail will be conducted September 2-29, 1997. The count will be conducted on encumbered regular rural routes where either the employer or the regular rural carrier opted for a count by June 27, 1997, and on any auxiliary or vacant regular rural route where management elects to count. Additionally, where mutually agreed to by management and the regular rural carrier, the carrier may conduct the count, as provided by the March 14, 1997, USPS/NRLCA Memorandum of Understanding on National Mail Count on Rural Routes and Route Inspection Procedures.

## Mail Count Procedures

Mail count procedures for all 24 days of the count must be in accordance with Chapter 5 of Handbook PO-603, *Rural Delivery Carrier Duties and Responsibilities* (June 1991 edition), except part 535.12, which is revised as follows:

Handbook PO-603, *Rural Delivery Carrier Duties and Responsibilities*

## 5 Inspection, Count, and Adjustment of Rural Routes

• • • • •

## 530 Rural Route Mail Counts

• • • • •

## 535 Mail Count Forms

• • • • •

535.12 Completion. During the entire mail count period, complete PS Form 4239 daily for each route. Transfer the totals daily from PS Form 4239 to PS Form 4241. Use the following guidelines to complete PS Form 4239:

## a. Column A — Letter-Size Mail

- (1) Enter in this column all letter-size mail, including ordinary letters, cards, newsletter type mail, and circulars five inches or less in width that can be cased in the separations of the carrier cases. Small magazines and small catalogs 5 inches or less in width and 3/8 inch or less in thickness are included in this column. Include detached address labels (specifically addressed) for sample merchandise, magazines, and catalogs in the letter count.

**Note:** The maximum thickness of 3/8 inch applies only to small magazines and small catalogs. Letter-size mail is mail that fits in the width of the case separation in use, regardless of thickness. All detached address cards (with a specific address) for sample merchandise, shared mail, magazines, and catalogs are included in the letter count.

(2) Do not include newspapers, boxholders, flats, and rolls even though they may be cased with letter mail. Count each direct or segmented bundle (see part 225.4) distributed and tied out at mail distribution cases as one parcel and enter that number in column D. Do not count direct or segmented bundles tied out at the carrier case (see part 225.5) as parcels. Do not include registered, certified, COD, numbered insured, Express Mail, and other accountable mail in this column. For special delivery articles see column F.

## b. Column B — Sector/Segment Letters

Enter in this column all mail up to 6 1/8 inches in width that is processed on automated equipment in sector/segment order.

## c. Column C — Papers, Magazines, Catalogs, Flats, Other Non-Letter-Size Mail

Enter in this column newspapers, flats, magazines, catalogs, rolls, and other non-letter-size mail that can be cased for delivery using carrier casing equipment. This includes catalogs cased with other mail or cased separately. This does not include those items specifically referenced in column D, Parcels.

Exceptions: Count simplified address articles, including mail with detached labels, as boxholder mail and enter the number in column E. Count each direct or segmented bundle distributed and tied out at mail distribution cases (see part 225.4) as one parcel and enter the number in column D. Do not count direct or segmented bundles tied out at the carrier case (see part 225.5) as parcels. Do not count registered, certified, COD, numbered insured mail, Express Mail, and other accountable mail in this column. For special delivery articles see column F.

## d. Column D — Parcels

(1) A parcel is any rigid article that exceeds any one of the following dimensions:

- (a) 5 inches in height.  
 (b) 18 inches in length.  
 (c) 1 9/16 inches in width.

**Examples:** A rigid article that measures 4. x 15. x 1 3/4. is recorded as a parcel because the 1 3/4. thickness exceeds the 1 9/16. criteria. However, a rigid article that mea-

ATTACHMENT 1  
 page 1 of 7  
 MPA/USPS-T17-12a

sures 5. x 18. x 1 9/16. is recorded as a flat because *none* of the dimensions *exceed* the stated criteria. (This includes flats properly prepared and endorsed "Do Not Fold or Bend" in accordance with *Domestic Mail Manual (DMM) C010.8.2c.*)

(2) In addition, any nonrigid article that does not fit in the letter or flat separations (where flat separations are used) *with other mail* is considered a parcel. (This includes articles that have not been prepared in accordance with DMM C010.8.2c, even though the mailer has endorsed them "Do Not Fold or Bend." These nonrigid articles should be carried and credited as parcels, provided that they do not fit in the letter or flat separation (where flat separations are used) with other mail without damage to the article).

(3) The carrier has the option of handling odd-size articles either with flat mail or separately, regardless of how it is credited.

(4) Parcels with detached labels do not belong in this column. They are counted as boxholders in column E. Only specifically addressed samples too large to be cased are included in the parcel count.

(5) Each direct or segmented bundle distributed and tied out at the mail distribution cases (see part 225.4) is counted as a parcel. Direct or segmented bundles tied out at the carrier case (see part 225.5) are not counted as a parcel.

(6) Registered, certified, COD, numbered insured, Express Mail, and other accountable mail are not counted in this column. (For special delivery articles see column F.)

#### Column E — Boxholders

Enter the daily number of boxholders (families, boxes, or deliveries, as appropriate) taken out for delivery on the route. This includes all simplified address mail, including samples with simplified address (see DMM A040). When samples are received with detached address labels (specifically addressed), enter the total number of samples. (See part 535.12.a, column A, for recording the label count.) Include simplified address, detached labels (no specific name or address) in this column. The number of pieces of boxholder mail must not exceed the number of families or boxes (as appropriate) on the route for each mailing. Include in this column all boxholders, whether cased or not.

#### f. Column F — Registered Mail, Certified Mail, Numbered Insured Articles, Express Mail, and Other Accountable Mail.

(1) Enter the number of articles received daily for delivery in this column. Entries in this column preclude entries for the same items in columns A, B, C, D, or H.

**Note:** Where the carrier dismounts or leaves the line of travel to effect delivery or attempt delivery of special delivery mail, enter the number of special delivery articles in this column. Otherwise, enter them in columns A, B, C, or D as

appropriate. Do not record any articles entered in columns A, B, C, D, or L in column F.

(2) On high-density (L) routes where multiple accountable items are received for one address, enter the items on PS Form 3883. The route receives credit for one accountable article per page or partial page completed.

**Example:** If a route received 10 accountable articles of which five were for delivery to one address, the route would receive credit for six accountable items: one item each for the five articles for delivery to individual addresses, and one item for the five articles entered on PS Form 3883, *Firm Delivery Book for Accountable Mail*, for delivery to the one address. Under no circumstances use a PS Form 3883 for delivery of only one accountable item.

(3) When a PS Form 3883 is authorized for use on high-density (L) routes, additional credit is allowed for handling receipts on items listed in the book (see column T).

#### g. Column G — CODs and Customs-Due Received for Delivery

Enter daily the number of articles received for delivery.

#### h. Column H — Postage Due

Enter the number of postage due articles taken out for delivery. Do not include postage due items in columns A, B, C, or L.

**Note:** A carrier can receive a double credit for a postage due parcel.

**Example:** An ordinary parcel with postage due would be credited as a parcel in column D, Parcels, and in column H, Postage Due.

#### I. Column I — Change of Address (COA)

Enter in this column the number of change of address orders (PS Form 3575, *Change of Address Order*, or PS Form 3546, *Forwarding Order Change Notice*) received and entered during the count period. PS Form 3546, initiated by the carrier, is creditable as a forwarding order, provided that it is not a duplication of a previous action. There must be no accumulation of change of address orders at the start of the count period.

**Note:** Do not record the entry of a new or additional customer's name on PS Form 1564, *Address Change Sheet*, or PS Form 4232, *Rural Delivery Customer Instructions*, as a change of address order.

#### j. Column J — Marked Up Mailpieces

(1) In this column, record the number of pieces of all classes of mail marked up. Markups are mailpieces undeliverable as addressed that require the carrier to endorse the mail with the reason for nondelivery specified in DMM F010.4. Do not record mail missorted to a route as a markup. Do include missorted and missent mail in the original count

of mail. This applies where routes have been adjusted, territory has changed, or the mail is routed to the wrong carrier.

(2) In instances where mailing addresses have been changed from rural routes and box numbers to street names and numbers, mail is not credited as a markup on the route where the territory transferred to or from. This is considered a hand-off and credit is given in the original count of mail.

(3) Markup credit is provided for the following categories of undeliverable mail:

(a) *Mail Sorted to the Undeliverable-as-Addressed Separations or Designated Location at the Carrier Case.* Credit one markup for each bundle of the following categories of mail:

(i) A-Z separations/machinable or non-machinable.

(ii) Insufficient address.

(iii) Undeliverable-as-addressed, unable to forward.

(iv) Undeliverable bulk business mail.

(v) Other undeliverable bulk business mail.

(b) *Excess Boxholders.* Carriers will do all of the following:

(i) Bundle separately each set of excess boxholder mail. (A sack, hamper, tray, etc., may be used for this purpose.)

(ii) Endorse a facing slip *In Excess of Requirements*, initial, and attach to each bundle, and

(iii) Receive one markup credit for each set.

(c) *Mail Individually Endorsed by the Carrier.* Credit a markup for each piece of mail in the following categories:

(i) Attempted—Not Known.

(ii) No Such Number.

(iii) Deceased.

(iv) No Mail Receptacle.

(v) Refused.

(vi) *Vacant.* Only First-Class Mail, Periodicals, endorsed Standard Mail (A) or Standard Mail (B) addressed to *Occupant*. Do not endorse undeliverable bulk business mail.

(vii) *Undeliverable-as-Addressed (Parcels).* Do not credit as a markup parcel post endorsed only to indicate that an attempted delivery notice was left.

(viii) *No Record Mail.* Credit as a markup each piece of mail given to the carrier under the provisions of 242.4, whether or not the piece is marked up by the carrier.

(ix) Other required individual carrier endorsements in DMM F010.4.2, as appropriate, and undeliverable mail the postmaster or supervisor requires the carrier to individually endorse.

#### k. Column K — PS Form 3821 Completed

Enter only the number of completed PS Forms 3821, *Clearance Receipt*.

#### l. Column L — Delivery Point Sequence (DPS) Letters

Enter in this column all mail up to 6 1/8 inches in width that is processed on automated equipment as Delivery Point Sequence mail.

**Exception:** If fewer than 2,400 pieces of DPS mail are averaged per week during the entire mail count period and/or the route was not validated before the count as meeting the 98 percent quality threshold, mail processed as DPS will be cased and recorded as sector/segment mail in column B on PS Form 4241, *Rural Delivery Statistics Report*, or, if it does not qualify as sector/segment mail, recorded in column A, Letter Size, or column C, Newspapers, Magazines, Flats, Catalogs, and Rolls, as appropriate.

**Note:** Casing of DPS mail will not change mail count procedures or time standards applied to DPS or other mail.

#### m. Column M — Money Order Applications

Record in this column the number of money order applications received on the route. If rural carriers reside on the route they serve and regularly purchase money orders throughout the year, they will receive credit. Postmasters or supervisors review each money order application daily.

#### n. Column N — Letters and Flats Collected

Enter in this column the number of letters and flats collected on the route. If mail is received in bundles, count each bundle as one piece. Do not count each piece in the bundle. Do not include mail picked up from a collection box or cluster box unit (CBU) collection compartment. Centralized delivery equipment collection compartments receive a standard allowance.

Enter in column R the actual time required to open the collection boxes, remove the mail, and close the boxes.

#### o. Column O — Ordinary and Insured Parcels Accepted

(1) Enter in this column the number of ordinary and insured parcels accepted on the route. That is:

(a) Parcels that require the carrier to weigh, rate, and affix postage to the article, or

(b) Parcels weighing more than 2 pounds for which postage has been prepaid.

(2) Do not enter obvious letter- and flat-size mail, including flimpacks, etc., whether the carrier affixes postage or not. Count presacked parcels for which postage has been computed as one parcel for each sack. Do not credit parcels that a customer refuses or are not deliverable as a parcel accepted.

**p. Column P — Registers and Certified Accepted**

Record in this column the number of registered and certified articles accepted on the route. Do not include in the count those articles returned when PS Form 3849 has been left for the customer. Time credit for No Response — Left Notice Items Is included in the time factor for delivery.

**q. Column Q — Loading Vehicle**

Enter the time spent transferring mail from the carrier's work area to the vehicle. This time should include taking mail from the work area to the vehicle, placing mail in the vehicle, and returning the equipment to a designated location. Postmasters or supervisors must observe the loading operation daily to ensure that carriers operate efficiently. Include only the time required to place mail in gurneys or hampers in loading time if mail cannot be placed in the conveyance during strap out. In offices where the carrier does not normally withdraw all mail for the route, the required final withdrawal from the designated distribution case, or other equipment, will be accomplished in conjunction with the loading operation, and the actual time required included in the loading allowance. Do not include the time used for this function if the carrier receives the withdrawal allowance. Loading time in excess of minutes must be fully explained in the Comments section of PS Form 4239. However, do not interpret the loading allowance to be a minimum 15 minutes daily. The actual time shown for loading the vehicle must not include time for arranging parcels in delivery sequence; this is included in the time allowance for those items in column D.

**r. Column R — Other Suitable Allowance**

(1) A reasonable time allowance may be claimed for unusual conditions, or for other services rendered on a daily or weekly basis that are not accounted for under the normal work functions. This does not include time for vehicle breakdowns. Management must authorize items for which time is claimed under this heading. These items must recur daily or weekly. Weekly safety talks must be conducted, and the actual time required (usually 5 minutes per week) recorded in column R.

(2) The actual time required to place Central Markup System/Computerized Forwarding System (CMU/CFS) mail in the designated location is credited in column R.

(3) Where no office personnel are on duty when the carrier returns from serving the route on Saturday, the carrier receives actual time allowance only for those duties performed over and above the normal functions of this day and the fol-

lowing work day. (This does not include time spent counting mail or completing count forms.)

(4) Those carriers who serve a nonpersonnel rural unit receive a minimum allowance of 15 minutes daily for each unit served. Boxes located in these units are not included in the route totals on PS Form 4241. Additional time above 15 minutes claimed for servicing a nonpersonnel unit must be explained in the Comments section.

(5) Personal time, or time used for purchasing and checking stamp stock, should not be entered. These times are credited when the evaluation is processed at the Information Service Center (ISC).

(6) No entries are made in this column for those routes using USPS-owned or -leased vehicles. The ISC will automatically credit appropriate time allowances as indicated in 535.23. Time spent waiting for vehicle repair or tow while on the route is not a recurring function, and is not granted.

(7) All entries in column R require explanation in the Comments section.

**Note:** No entries are made in this column for those routes with collection compartments, or parcel post lockers located in centralized delivery equipment.

**s. Column S — Purchasing Stamp Stock**

All rural routes will be automatically credited with 20 minutes per week for purchasing and checking stamp stock.

**Note:** The Minneapolis ISC will credit the 20 minutes per week and record the proper allowance on PS Form 4241-A, *Rural Route Evaluation*.

**t. Column T — Return Receipts**

On high-density (L) routes, an additional credit is received only for those return receipts for accountable items handled via PS Form 3883 (see column F). Enter in this column the number of return receipts attached to those accountable items entered on PS Form 3883. Do not credit return receipts on accountable items delivered other than those listed on PS Form 3883.

**Example:** If a route received 10 accountable items and each had a return receipt attached, but only four of the items were listed in a firm delivery book, the route receives credit for four return receipts in column T.

**u. Column U — Authorized Dismounts**

The number of authorized dismounts is shown daily. (See part 313 for those instances where dismount deliveries may be authorized.)

**Example:** A carrier is authorized to dismount at a school. The school office is closed on Saturdays. The route would be credited with a dismount Monday through Friday, but would not receive dismount credit on Saturday. Authorized dismounts must be explained in the *Comments* section. When a

carrier dismounts primarily to provide other services, such as delivery or pickup of accountable mail, COD, Express Mail, etc., do not authorize dismount credit; existing time allowances include time for dismounting.

**v. Column V — Authorized Dismount Distance (in feet)**

(1) Enter the authorized dismount distance (in feet) traveled daily by the carrier. The distance entered could vary daily depending upon the number of dismounts authorized each day (see column U). Before determining the authorized dismount distance, the postmaster or supervisor must:

(a) For single delivery point dismounts such as CBUs, a school, mailroom, etc., establish the authorized parking location at the closest practicable point.

(b) For multiple deliveries requiring a dismount (such as multiple apartment buildings served from one park point, shopping centers, etc.), a parking location is established at the most advantageous point or points, and the authorized dismount line of travel between delivery points is laid out in the most efficient travel pattern. To avoid unnecessary trips to the vehicle and to ensure employee safety, the postmaster or supervisor may authorize the use of a carrier satchel or satchel cart.

(2) When determining the authorized dismount distance, the postmaster or supervisor must measure the most direct and/or efficient distance from the point of dismount from the vehicle to the delivery point, or points, and return to the vehicle. Record measurements to the closest foot. Make all entries on the basis of the number of trips required by the carrier each day.

**Example:** A school is authorized as a dismount delivery point. The total dismount distance from the vehicle to the delivery point and return is 140 feet. If, on the first day of the mail count, the volume for this delivery requires only one trip by the carrier, the carrier would receive credit for one dismount in column U and 140 feet dismount distance in column V. If, however, on the second day, the volume for this delivery required two trips, the carrier would receive credit for one dismount in column U and 280 feet in dismount distance.

(3) There must be a reasonable expectation that the line of travel established for the dismount is available to the carrier at least 90 percent of the time. This consideration is especially important in areas that experience consistently heavy snowfalls where direct dismount routes (not coinciding with existing sidewalks) will be blocked most of the winter.

**w. Column W — Counting Time**

Enter the number of minutes actually used to count the mail. Only the carrier's time is recorded and not the postmaster's or supervisor's counting time.

**x. Column X — Waiting Time**

Enter the number of minutes the carrier spent waiting for mail after the official starting time.

**y. Column Y — Intermediate Offices Served Daily, Services Performed at Intermediate Offices**

(1) Enter the number of intermediate post offices served daily. Carriers who perform functions or services at intermediate offices for which time allowances are provided will receive appropriate time credit for these services.

(2) Record daily on PS Form 4239 all functions performed or services provided at intermediate offices, and forward, in a sealed envelope, to the postmaster at the carrier's originating office.

(3) When a non-L route carrier purchases stamp stock at an intermediate office, show the actual time required to perform this function, not to exceed 5 minutes daily, in the *Other Suitable Allowance* column and explain in the *Comments* section. During the mail count period, maintain the normal frequency of stamp purchases at the intermediate office.

**Note:** For high-density (L) route carriers to receive this additional allowance, their purchases must meet the minimum requirements of 150 times the First-Class Mail postage rate.

(4) When completing PS Form 4241 for the week, the postmaster or supervisor at the office from which the route begins will include in the proper *Total* columns the items applicable to the intermediate office, and writes in above the signature line the words, "Includes services performed at intermediate office." Indicate on the form, in the *Comments* section, the functions or services performed.

**z. Column Z — Weight of Locked Pouches Carried Daily**

Enter the weight carried in pounds (rounded to the nearest whole pound) of all mail, including outside pieces, to or from designated offices. Carriers serving nonpersonnel rural units do not receive credit for a locked pouch.

**Note:** To determine the daily weight, total the pouch weight of all days and divide by 24. Then divide the daily weight by the number of locked pouch stops from line C. Additional information, to determine the average daily weight. Enter this number in column Z on PS Form 4241-X.

\* \* \* \* \*

Future editions of Handbook PO-603 will include the changes in part 535.12 as published. Postmasters must hold joint conferences to discuss mail count procedures and instructions with supervisors and rural carriers involved in the count *no later than close of business on Saturday, August 16, 1997.*

### Completion of PS Form 4239

PS Form 4239, *Rural Route Count of Mail* (March 1994) (SN 7530-02-000-9205, Quick Pick Number 316), is in stock and may be ordered from the material distribution centers (MDCs) using PS Form 7380, *MDC Supply Requisition*, or by Touch-Tone Order Entry. At least 24 forms are required for each rural route being counted. Instructions for completing this form are included with this article.

### Completion of PS Form 4241

PS Form 4241, *Rural Delivery Statistics Report* (May 1994), is included on page 19 of this *Postal Bulletin* and must be reproduced locally as needed. Because this is a four-week national mail count, two PS Forms 4241 will be required for each route being counted. Transfer data daily from PS Form 4239 and total PS Form 4241 at the end of each 2-week period. Completion instructions for this form are found in Part 535.2 of Handbook PO-603, *Rural Delivery Carrier Duties and Responsibilities* (June 1991 edition).

### Completion of PS Form 4241-X

One PS Form 4241-X, *Rural Delivery Statistics Summary Report* (May 1995), will be required for each route being counted. Transfer data from PS Forms 4241 at the end of each 2-week period. Completion instructions for this form are the same as PS Form 4241. PS Form 4241-X is not in stock at the MDCs. A copy of PS Form 4241-X is included on page 21 of this *Postal Bulletin* and must be reproduced locally as needed.

### Completion Requirements and Dates

In addition to completing PS Form 4239 and transferring the information daily to PS Form 4241, individual postmasters and supervisors are responsible for completing and reviewing PS Forms 4241 and PS Form 4241-X for accuracy by October 1, 1997.

In accordance with Handbook PO-603, individual rural carriers are given 2 days to review PS Form 4241-X before signing it. Rural carrier reviews must be completed by October 3, 1997, so that all forms are submitted and received by the district no later than October 4, 1997.

Individuals responsible for input of mail count data through the Distributed Data Entry/Data Reporting (DDE/DR) application must be familiar with the entry screen to ensure data is properly entered and recorded in the correct column. Data entry may begin on October 1, 1997. All DDE/DR data entry must be completed by close of business on October 31, 1997. Do not submit PS Forms 4241-X to the Minneapolis Information Service Center (ISC).

### PS Form 4241-A, *Rural Route Evaluation*

PS Form 4241-A, *Rural Route Evaluation* (July 1994), is a laser-printed form generated by the DDE/DR systems. This form is not available from the MDC. Minneapolis will process all counts November 1, 1997, and complete and mail this form to each district and associate office for receipt by November 7, 1997.

### National Mail Count Training

Districts conducting national mail count training should notify the NRLCA state stewards of the date, time, and location of all training sessions. Administrative leave to attend one of these sessions should be approved for each state steward. State stewards may use annual leave or request leave without pay to attend other district-authorized mail count training sessions.

### Option Election for Rural Routes Not Being Counted

Regular rural carriers who qualify for a high or low option and who do not count in September are eligible to elect a high option (see Article 9.2.C.8 of the USPS-NRLCA Agreement) for the new guarantee year by completing PS Form 4015-A, *Rural Carrier Agreement to Use Annual Leave Pursuant to Election of Higher Route Classification*. Option changes are entered by processing PS Form 4003, *Official Rural Route Description*, and are effective with the beginning of the new guarantee period, November 8, 1997 (PP 24-97).

—*Delivery Policies and Programs,  
Operations Support, 8-14-97*

## APO/FPO Changes

Make the following ink change to the most recent APO/FPO tables published in *Postal Bulletin* 21951 (7-31-97).

APO/FPO	Action	Effective Date	Sec Restrictions
09855	Not Active	Immediately	

—*International and Military Mail Operations,  
International Business Unit, 8-14-97*

**ATTACHMENT 1**  
page 6 of 7  
MPA/USPS-T17-12a



FISCAL YEAR 1992  
COST SEGMENT 10 -- RURAL CARRIERS  
WORKSHEET 10.1.1 -- DEVELOPMENT OF EVALUATED ROUTES ATTRIBUTABLE COSTS  
PAGE 1 OF 1

LINE NO.	ROUTE EVALUATION ITEM	AVERAGE VALUE	EVALUATION FACTOR	EVALUATION ALLOWANCE			DELIVERED AND COLLECTED MAIL COSTS				LINE NO.	
				UNADJUSTED	VEHICLE LOAD ADJUSTMENT	MARKUPS ADJUSTMENT	ADJUSTED	UNADJUSTED	BNDLD LTRS AND FLATS ADJUSTMENT	ADJUSTED		ADJUSTED (000)
(1)	(2)	(3)	(4) = (2)x(3)	(5)	(6)	(7) = (4)-(6)	(8)	(9)	(10) = (8)+(9)	(11) = (10)/1000		
1	COLUMN SOURCE>>											1
2	VOLUME VARIABLE											2
3	LETTERS DELIVERED	601,304 <	0.07910 <	47,563.15	900.15	750.88	49,214.18	352,181	46	352,227	352	3
4	FLATS DELIVERED	415,017 <	0.14180 <	58,788.41	1,112.17	927.75	60,806.33	435,137	57	435,194	434	4
5	PARCELS DELIVERED	12,185 <	0.33300 <	4,057.61	76.79	64.06	4,198.46	30,045	(103)	29,942	30	5
6	BOXHOLDERS DELIVERED	178,193 <	0.04000 <	7,127.72	134.89	112.53	7,375.14	52,777		52,777	53	6
7	COD DELIVERED	107 <	5.50000 <	588.50	11.14	9.29	608.93	4,358		4,358	4	7
8	ACCOUNTABLES DELIVERED	1,404 <	4.00000 <	5,618.00	108.28	88.88	5,810.94	41,584		41,584	42	8
9	POSTAGE DUE	407 <	0.20000 <	81.40	1.54	1.29	84.23	603		603	1	9
10	RETURN RECEIPTS	8 <	0.25000 <	2.00	0.04	0.03	2.07	15		15	0	10
11	LETTERS/FLATS COLLECTED	98,719 <	0.04000 <	3,948.78			3,948.78	28,258		28,258	28	11
12	PARCELS ACCEPTED	278 <	4.00000 <	1,104.00			1,104.00	7,900		7,900	8	12
13	ACCOUNTABLES ACCEPTED	45 <	2.00000 <	90.00			90.00	644		644	1	13
14	MONEY ORDERS	79 <	3.50000 <	276.50			276.50	1,979		1,979	2	14
15	VEHICLE LOADING	4,686 <	0.50000 <	2,343.00	(2,343.00)							15
16	MARKUPS	8,374 <	0.23340 <	1,954.49		(1,954.49)						16
17	TOTAL			133,519.54	(0.00)	0.00	133,519.54	955,481	0	955,481	955	17
18	FIXED											18
19	MILES	5,757 <	12.00000 <	69,084.00								19
20	REGULAR BOXES	25,284 <	2.00000 <	50,568.00								20
21	CENTRALIZED BOXES	4,281 <	1.00000 <	4,281.00								21
22	L BOXES	17,056 <	1.64000 <	27,971.84								22
23	NDCBU COMPARTMENTS	156 <	1.00000 <	156.00								23
24	PARCEL POST LOCKERS	142 <	2.00000 <	284.00								24
25	POUCHES	107 <	1.00000 <	107.00								25
26	WITHDRAWALS	2,221 <	1.00000 <	2,221.00								26
27	CHANGE OF ADDRESS	432 <	2.00000 <	864.00								27
28	FORM 3579	464 <	2.00000 <	928.00								28
29	OFFICE WORK	3,000 <	1.00000 <	3,000.00								29
30	PURCHASE STAMPS	2,163 <	1.00000 <	2,163.00								30
31	OTHER SUITABLE ALLOWANCE	1,445 <	1.00000 <	1,445.00								31
32	DISMOUNT	1,866 <	0.10000 <	186.60								32
33	DISMOUNT DISTANCE	186,345 <	0.00284 <	529.22								33
34	TOTAL											34
35	ATTRIBUTABLE (e)							955,481		955,481	955	35
36	INSTITUTIONAL							1,216,066		1,216,066	1,217	36
37	TOTAL	1,571,523		297,308.20				2,171,547		2,171,547	2,172	37

a - LR F-178, SEC VI (LINES 15, 25, 26, 29, 30, 31 ARE FOR ALLOWANCE FOR AVERAGE ROUTE).  
b - LR F-178, SEC VI (LINES 15, 25, 26, 29, 30, 31 = 1.0000 TO CONFORM WITH NOTE a, ABOVE).  
c - C4L15 APPORTIONED ON C4L3.L10.  
d - C4L16 APPORTIONED ON C4L3.L10.

e - L17 and L35, W/S 10.0.1 C4L6; L1, L4, L15 APPORTIONED ON C7;  
L37, W/S 10.0.1 C4L4; L36, L37-L35.  
f - C9L5 (C8L5 x BUNDLED LETTERS AND FLATS FACTOR) APPORTIONED ON  
COMPOSITION OF (C8L3 + C8L4).  
FACTOR = 0.003430 (SEE W/S 10.1.2, FN c).

FI EAR 1993  
COS1 SEGMENT 10 -- RURAL CARRIERS  
WORKSHEET 10.1.1 -- DEVELOPMENT OF EVALUATED ROUTES ATTRIBUTABLE COSTS  
PAGE 1 OF 1

LINE NO.	ROUTE EVALUATION ITEM	AVERAGE VALUE	EVALUATION FACTOR	EVALUATION ALLOWANCE			DELIVERED AND COLLECTED MAIL COSTS				LINE NO.	
				UNADJUSTED	VEHICLE LOAD ADJUSTMENT	MARKUPS ADJUSTMENT	ADJUSTED	UNADJUSTED	BNDLD LTRS AND FLATS ADJUSTMENT	ADJUSTED		ADJUSTED (000)
	(1)	(2)	(3)	(4)= (2)x(3)	(5)	(6)	(7)= (4)-(6)	(8)	(9)	(10)= (8)+(9)	(11)= (10)/1000	
	[a]	[b]			[c]	[d]		[e]	[f]			
1	COLUMN SOURCE>>											1
2	VOLUME VARIABLE											2
3	LETTERS DELIVERED	601,304 <	0.07910 <	47,563.15	900.15	750.88	49,214.18	373,342	0	373,342	373	3
4	FLATS DELIVERED	415,017 <	0.14160 <	58,788.41	1,112.17	927.75	60,808.33	461,281	1	461,282	461	4
5	PARCELS DELIVERED	12,185 <	0.33300 <	4,057.81	78.79	84.08	4,198.46	31,850	(1)	31,849	32	5
6	BOXHOLDERS DELIVERED	178,193 <	0.04000 <	7,127.72	134.89	112.53	7,375.14	55,948		55,948	56	6
7	COD DELIVERED	107 <	5.50000 <	588.50	11.14	9.29	608.93	4,619		4,619	5	7
8	ACCOUNTABLES DELIVERED	1,404 <	4.00000 <	5,618.00	108.28	88.68	5,810.94	44,082		44,082	44	8
9	POSTAGE DUE	407 <	0.20000 <	81.40	1.54	1.29	84.23	639		639	1	9
10	RETURN RECEIPTS	8 <	0.25000 <	2.00	0.04	0.03	2.07	16		16	0	10
11	LETTERS/FLATS COLLECTED	88,719 <	0.04000 <	3,948.76			3,948.76	29,958		29,958	30	11
12	PARCELS ACCEPTED	278 <	4.00000 <	1,104.00			1,104.00	8,375		8,375	8	12
13	ACCOUNTABLES ACCEPTED	45 <	2.00000 <	90.00			90.00	683		683	1	13
14	MONEY ORDERS	79 <	3.50000 <	276.50			276.50	2,098		2,098	2	14
15	VEHICLE LOADING	4,888 <	0.50000 <	2,343.00	(2,343.00)							15
16	MARKUPS	8,374 <	0.23340 <	1,954.49		(1,954.49)						16
17	TOTAL			133,519.54		0.00	133,519.54	1,012,889	0	1,012,889	1,013	17
18	FIXED											18
19	MILES	5,757 <	12.00000 <	69,084.00								19
20	REGULAR BOXES	25,284 <	2.00000 <	50,568.00								20
21	CENTRALIZED BOXES	4,281 <	1.00000 <	4,281.00								21
22	L BOXES	17,058 <	1.64000 <	27,971.84								22
23	NDCBU COMPARTMENTS	158 <	1.00000 <	158.00								23
24	PARCEL POST LOCKERS	142 <	2.00000 <	284.00								24
25	POUCHES	107 <	1.00000 <	107.00								25
26	WITHDRAWALS	2,221 <	1.00000 <	2,221.00								26
27	CHANGE OF ADDRESS	432 <	2.00000 <	864.00								27
28	FORM 3579	484 <	2.00000 <	928.00								28
29	OFFICE WORK	3,000 <	1.00000 <	3,000.00								29
30	PURCHASE STAMPS	2,183 <	1.00000 <	2,183.00								30
31	OTHER SUITABLE ALLOWANCE	1,445 <	1.00000 <	1,445.00								31
32	DISMOUNT	1,888 <	0.10000 <	188.80								32
33	DISMOUNT DISTANCE	186,345 <	0.00284 <	529.22								33
34	TOTAL											34
35	ATTRIBUTABLE [e]							1,012,889		1,012,889	1,013	35
36	INSTITUTIONAL							1,289,132		1,289,132	1,289	36
37	TOTAL	1,571,523		297,308.20				2,302,021		2,302,021	2,302	37

a - LR F-178, SEC VI (LINES 15, 25, 28, 29, 30, 31 ARE FOR ALLOWANCE FOR AVERAGE ROUTE).  
b - LR F-178, SEC VI (LINES 15, 25, 28, 29, 30, 31 = 1.0000 TO CONFORM WITH NOTE a. ABOVE).  
c - C4L15 APPORTIONED ON C4L3.L10.  
d - C4L16 APPORTIONED ON C4L3.L10.

e - L17 and L35, W/S10.0.1 C4L6; L1.14, L15 APPORTIONED ON C7;  
L37, W/S10.0.1 C4L4; L36, L37-L35.  
f - C9L5 (C8L5 x BUNDLED LETTERS AND FLATS FACTOR) APPORTIONED ON  
COMPOSITION OF [C8L3 + C8L4].  
FACTOR = 0.000020 (SEE W/S 10.1.2, FN c).

DELIVERED AND COLLECTED MAIL COSTS

EVALUATION ALLOWANCE

LINE NO.	ROUTE EVALUATION ITEM	AVERAGE VALUE		EVALUATION FACTOR	UNADJUSTED		VEHICLE LOAD ADJUSTMENT		MARKUPS ADJUSTMENT		ADJUSTED		UNADJUSTED	BNDL LTRS AND FLATS ADJUSTMENT	ADJUSTED		ADJUSTED (000,000)	LINE NO.	
		(17)	(18)		(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)			(27)	(28)			
1	COLLARI SOURCE																		1
2	VOLUME VARIABLE	801,304	4	0.07910	47,565.15	600.18	750.88	49,214.18	408,071	408,071	408,071	408,071	408,071	1	1	408,071	408,071	408,071	2
3	LETTERS DELIVERED	415,017	4	0.14160	55,766.41	1,123.17	827.75	90,808.33	504,190	504,190	504,190	504,190	504,190	1	1	504,190	504,190	504,190	3
4	FLATS DELIVERED	12,183	4	0.33300	4,051.81	76.78	64.00	4,168.46	34,812	34,812	34,812	34,812	34,812	(2)	(2)	34,812	34,812	34,812	4
5	PARCELS DELIVERED	178,183	4	0.04000	7,127.72	134.80	172.53	7,275.14	81,553	81,553	81,553	81,553	81,553			81,553	81,553	81,553	5
6	BOOKLETZERS DELIVERED	107	4	6.80000	544.50	11.14	9.26	608.83	5,048	5,048	5,048	5,048	5,048			5,048	5,048	5,048	6
7	COB DELIVERED	1,404	4	4.00000	9,619.00	106.28	88.66	9,819.84	46,183	46,183	46,183	46,183	46,183			46,183	46,183	46,183	7
8	ACCOUNTABLES DELIVERED	407	4	0.20000	81.40	1.26	1.26	84.23	686	686	686	686	686			686	686	686	8
9	POSTAGE DUE	8	4	0.25000	2.00	0.04	0.03	2.07	17	17	17	17	17			17	17	17	9
10	RETURN RECEIPTS	94,719	4	0.04000	3,848.76	80.00	80.00	3,948.76	32,742	32,742	32,742	32,742	32,742			32,742	32,742	32,742	10
11	LETTERS/FLATS COLLECTED	278	4	4.00000	1,104.00	1,104.00	1,104.00	1,104.00	9,154	9,154	9,154	9,154	9,154			9,154	9,154	9,154	11
12	PARCELS ACCEPTED	148	4	2.00000	276.50	276.50	276.50	276.50	2,283	2,283	2,283	2,283	2,283			2,283	2,283	2,283	12
13	ACCOUNTABLES ACCEPTED	78	4	3.80000	2,943.00	(2,343.00)	(1,954.49)	276.50	2,283	2,283	2,283	2,283	2,283			2,283	2,283	2,283	13
14	MONEY ORDERS	4,888	4	0.80000	1,954.49	0.00	0.00	133,519.54	1,107,108	1,107,108	1,107,108	1,107,108	1,107,108			1,107,108	1,107,108	1,107,108	14
15	VEHICLE LOADING	6,374	4	0.25340	133,519.54	0.00	0.00	133,519.54	1,107,108	1,107,108	1,107,108	1,107,108	1,107,108			1,107,108	1,107,108	1,107,108	15
16	MARKUPS																		16
17	TOTAL																		17
18	FIXED																		18
19	MILES	5,737	4	12.00000	69,064.00	0.00	0.00	133,519.54	1,107,108	1,107,108	1,107,108	1,107,108	1,107,108			1,107,108	1,107,108	1,107,108	19
20	REGULAR BOXES	25,284	4	2.00000	50,568.00	0.00	0.00	50,568.00	408,071	408,071	408,071	408,071	408,071			408,071	408,071	408,071	20
21	CENTRALIZED BOXES	4,281	4	1.00000	4,281.00	0.00	0.00	4,281.00	34,812	34,812	34,812	34,812	34,812			34,812	34,812	34,812	21
22	BOOKS	17,053	4	1.60000	27,671.84	0.00	0.00	27,671.84	81,553	81,553	81,553	81,553	81,553			81,553	81,553	81,553	22
23	POC/BU COMPARTMENTS	158	4	1.00000	158.00	0.00	0.00	158.00	158.00	158.00	158.00	158.00	158.00			158.00	158.00	158.00	23
24	PARCEL POST LOCKERS	142	4	2.00000	284.00	0.00	0.00	284.00	107.00	107.00	107.00	107.00	107.00			107.00	107.00	107.00	24
25	POUCHES	107	4	1.00000	107.00	0.00	0.00	107.00	107.00	107.00	107.00	107.00	107.00			107.00	107.00	107.00	25
26	WITHDRAWALS	432	4	2.00000	864.00	0.00	0.00	864.00	864.00	864.00	864.00	864.00	864.00			864.00	864.00	864.00	26
27	FORM 3579	464	4	2.00000	928.00	0.00	0.00	928.00	928.00	928.00	928.00	928.00	928.00			928.00	928.00	928.00	27
28	OFFICE WORK	3,000	4	1.00000	3,000.00	0.00	0.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00			3,000.00	3,000.00	3,000.00	28
29	PURCHASE STAMPS	2,183	4	1.00000	2,183.00	0.00	0.00	2,183.00	2,183.00	2,183.00	2,183.00	2,183.00	2,183.00			2,183.00	2,183.00	2,183.00	29
30	OTHER SUITABLE ALLOWANCE	1,445	4	1.00000	1,445.00	0.00	0.00	1,445.00	1,445.00	1,445.00	1,445.00	1,445.00	1,445.00			1,445.00	1,445.00	1,445.00	30
31	BRANDOUNT	1,896	4	0.10000	189.60	0.00	0.00	189.60	189.60	189.60	189.60	189.60	189.60			189.60	189.60	189.60	31
32	DISCOUNT DISTANCE	189,348	4	0.00284	538.22	0.00	0.00	538.22	538.22	538.22	538.22	538.22	538.22			538.22	538.22	538.22	32
33	TOTAL																		33
34	ATTRIBUTABLE (B)																		34
35	INSTITUTIONAL																		35
36	TOTAL																		36
37	TOTAL																		37

(1) - L17 and L18, WRS 10.01 C4L8, L1, L4, L18 APPORTIONED ON C7.  
 (2) - WRS 10.01 C4L4, L29, L27, L35  
 (3) - C4L5 C4L5 (HANDLED LETTERS AND FLATS FACTOR) APPORTIONED ON COMPOSITION OF (C4L3 + C4L4)  
 FACTOR = 0.00059 (SEE WRS 10.1.2, FN 8)

(1) - L8-Q-37, SEC 6 (LINES 15, 24, 26, 29, 30, 31 ARE FOR ALLOWANCE FOR AVERAGE ROUTE).  
 (2) - L8-Q-37, SEC 6 (LINES 15, 25, 26, 29, 30, 31 = 1.0000 TO CONFORM WITH NOTE 4, ABOVE).  
 (3) - C4L18 APPORTIONED ON C4L3, L19.  
 (4) - C4L18 APPORTIONED ON C4L3, L19.

FISCAL YEAR 19-20 MAIL CARRIERS  
WORKSHEET 18.1.1 - DEVELOPMENT OF EVALUATED ROUTES ATTRIBUTABLE COSTS  
PAGE 1 OF 1

LINE NO	ROUTE EVALUATION ITEM	AVERAGE VALUE		EVALUATION FACTOR	EVALUATION ALLOWANCE			DELIVERED AND COLLECTED MAIL COSTS			LINE NO	
		(2)	(1)		UNADJUSTED (4) (743)	VEHICLE LOAD ADJUSTMENT (5) (6)	MARKUPS ADJUSTMENT (6) (6)	ADJUSTED (7) (4) (6)	UNADJUSTED (8) (6)	ADJUSTED (9) (6)		ADJUSTED (10) (8) (6)
1	COLUMN SOURCE**			(3)								
2	VOLUME VARIABLE	601,304 <	0.07810 <	(4)	47,593.15	900.15	750.88	48,214.18	434,898	0	434,898	435
3	LETTERS DELIVERED	415,017 <	0.14160 <		56,796.41	1,112.17	837.75	80,800.33	537,444	0	537,444	538
4	FLATS DELIVERED	12,185 <	0.33300 <		4,057.61	76.78	84.06	4,198.40	37,109	0	37,109	37
5	PARCELS DELIVERED	178,183 <	0.04000 <		7,127.72	134.89	112.53	7,375.14	65,189	0	65,189	65
6	BOXHOLDERS DELIVERED	1,404 <	0.02000 <		588.90	11.14	8.28	608.83	5,382	0	5,382	5
7	COO DELIVERED	407 <	0.25000 <		81.40	1.54	1.28	84.23	51,361	0	51,361	51
8	ACCOUNTABLES DELIVERED	84,718 <	0.04000 <		2,768.80	0.04	0.03	3,948.76	34,802	0	34,802	35
9	POSTAGE DUE	45 <	3.50000 <		2,343.00	(2,343.00)	0.00	133,518.54	1,180,128	0	1,180,128	1,180
10	RETURN RECEIPTS	79 <	0.50000 <		1,854.49	0.00	0.00	0.00	1,501,883	0	1,501,883	1,502
11	LETTERS/FLATS COLLECTED	8,374 <	0.23310 <		133,518.54	0.00	0.00	0.00	2,882,112	0	2,882,112	2,882
12	PARCELS ACCEPTED											
13	ACCOUNTABLES ACCEPTED											
14	MONEY ORDERS											
15	VEHICLE LOADING											
16	MARKUPS											
17	TOTAL											
18	FIXED	5,787 <	12.00000 <		69,084.00							
19	MILES	25,284 <	2.00000 <		50,568.00							
20	REGULAR BOXES	4,281 <	1.00000 <		4,281.00							
21	CENTRALIZED BOXES	17,056 <	1.80000 <		27,971.84							
22	L BOXES	150 <	1.00000 <		150.00							
23	NO-CBU COMPARTMENTS	142 <	2.00000 <		284.00							
24	PARCEL POST LOCKERS	107 <	1.00000 <		107.00							
25	POUCHES	2,221 <	1.00000 <		2,221.00							
26	WITHDRAWALS	432 <	2.00000 <		864.00							
27	CHANGE OF ADDRESS	484 <	2.00000 <		968.00							
28	FORM 3579	3,000 <	1.00000 <		3,000.00							
29	OFFICE WORK	2,163 <	1.00000 <		2,163.00							
30	PURCHASE STAMPS	1,445 <	1.00000 <		1,445.00							
31	OTHER SUITABLE ALLOWANCE	1,898 <	0.10000 <		189.80							
32	DISCOUNT	186,345 <	0.002814 <		978.72							
33	TOTAL											
34	ATTRIBUTABLE (H)	1,571,523			287,308.20							
35	INSTITUTIONAL											
36	TOTAL											

(H) - L17 and L35, WRS 10.0.1 C4.6; L1, L4, L15 APPORTIONED ON C7.  
 L37, WRS 10.0.1 C4.4; L36, L37-L35.  
 (I) - C4.5 (C4.5 x BUNDLED LETTERS AND FLATS FACTOR) APPORTIONED ON COMPOSITION OF (C4.3 + C4.4) FACTOR = 0.000010 (SEE WRS 10.1.2, FN 4)

Attachment  
Part e.  
MPA/USPS-T-2 b.

FISCAL YEAR: ANNUAL CARRIERS  
COST SHEET WORKSHEET 10.1.1 - DEVELOPMENT OF EVALUATED ROUTES ATTRIBUTABLE COSTS  
PAGE 1 OF 1

LINE NO	ROUTE EVALUATION ITEM	AVERAGE VALUE	EVALUATION FACTOR	EVALUATION ALLOWANCE			DELIVERED AND COLLECTED MAIL COSTS			LINE NO	
				UNADJUSTED (14*) (2)(3)	VEHICLE LOAD ADJUSTMENT (5) (c)	MARKUPS ADJUSTMENT (6) (d)	ADJUSTED (7) (4) (8)	UNADJUSTED (8) (4)	ADJUSTED (10)* (8)-(9)		ADJUSTED (11)* (10)-(9)
1	COLUMN SOURCE>>										
2	VOLUME VARIABLE	801,304 <	0.07610 <	47,543.15	900.15	750.88	49,214.18	454,336	454,419	454	
3	LETTERS DELIVERED	415,017 <	0.14580 <	68,786.41	1,112.17	927.78	60,808.33	561,352	561,454	561	
4	FLATS DELIVERED	12,195 <	0.33300 <	4,027.61	76.79	64.06	4,188.48	36,759	38,574	38	
5	PARCELS DELIVERED	178,193 <	0.04000 <	7,127.72	134.89	112.53	7,375.14	88,088	88,088	88	
6	BOOKOLDERS DELIVERED	107 <	8.80000 <	188.50	11.14	9.29	808.83	5,822	5,822	5	
7	COO DELIVERED	1,404 <	4.00000 <	5,818.00	105.28	88.66	5,810.84	53,845	53,845	54	
8	ACCOUNTABLES DELIVERED	407 <	0.20000 <	81.40	1.54	1.29	64.23	778	778	1	
9	POSTAGE DUE	8 <	0.25000 <	2.00	0.04	0.03	2.07	19	19	0	
10	RETURN RECEIPTS	86,719 <	0.04000 <	3,846.78	3,846.78	0.00	3,846.78	36,454	36,454	36	
11	LETTERS/FLATS COLLECTED	276 <	4.00000 <	1,104.00	1,104.00	0.00	1,104.00	10,192	10,192	10	
12	PARCELS ACCEPTED	45 <	2.00000 <	90.00	90.00	0.00	90.00	831	831	1	
13	ACCOUNTABLES ACCEPTED	78 <	3.50000 <	276.50	276.50	0.00	276.50	2,553	2,553	3	
14	MONEY ORDERS	4,898 <	0.50000 <	2,343.00	(2,343.00)	(1,954.48)	133,519.54	1,232,827	1,232,827	1,233	
15	VEHICLE LOADING	8,374 <	0.23340 <	133,519.54	0.00	0.00	133,519.54	1,232,827	1,232,827	1,233	
16	MARKUPS										
17	TOTAL										
18	FIXED	6,787 <	12.00000 <	96,084.00							
19	MILES	25,284 <	2.00000 <	50,568.00							
20	REGULAR BOXES	4,281 <	1.00000 <	4,281.00							
21	CENTRALIZED BOXES	17,058 <	1.80000 <	27,871.84							
22	L BOXES	156 <	1.00000 <	156.00							
23	NDCBU COMPARTMENTS	142 <	2.00000 <	284.00							
24	PARCEL POST LOCKERS	107 <	1.00000 <	107.00							
25	POUCHES	2,221 <	1.00000 <	2,221.00							
26	WITHDRAWALS	432 <	2.00000 <	864.00							
27	CHANGE OF ADDRESS	484 <	2.00000 <	968.00							
28	FORM 3578	3,000 <	1.00000 <	3,000.00							
29	OFFICE WORK	2,183 <	1.00000 <	2,183.00							
30	PURCHASE STAMPS	1,445 <	1.00000 <	1,445.00							
31	OTHER SUITABLE ALLOWANCE	1,868 <	0.10000 <	186.80							
32	DISCOUNT	166,345 <	0.00784 <	529.22							
33	TOTAL										
34	ATTRIBUTABLE (H)	1,571,823		267,208.20							
35	INSTITUTIONAL										
36	TOTAL										

(\*) - L17 and L35, WRS 10.0.1 COLS. L1, 14, L15 APPORTIONED ON C7;  
 L37, WRS 10.0.1 COLS. L38, L37-L35.  
 (H) - COLS COLS \* BUNDLED LETTERS AND FLATS FACTOR) APPORTIONED ON COMPOSITION OF (COL3 \* COL4) FACTOR = 0.004780 (SEE WRS 10.1.2, FN 6).

**RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORIES  
OF MAGAZINE PUBLISHERS OF AMERICA (REDIRECTED FROM WITNESS  
BARON)** 5169

**MPA/USPS-T17-13. Please refer to your response to MPA/USPS-T17-11.**

- a. When was the last time that the Postal Service comprehensively revised all route evaluation factors?**
- b. Please provide the average number of hours worked (determined from the route evaluation factors) per rural carrier by route type individually for each of the past ten years.**

**Response:**

- a. Rural standards were adopted in 1954. The Postal Manual published on July 1, 1954 contained these standards. Significant revisions to the rural time standards and the introduction of some new standards was announced on July 6, 1964.**
- b. The Postal Service does not have this information to this level of detail.**

**NAA/USPS-T17-1. Please refer to Table 1 at page 12 of your direct testimony concerning the calculation of fixed-time costs related to the "stops effect."**

- a. Please explain why you chose the lowest 20<sup>th</sup> percentile as your sample of one-letter stops to estimate "zero-volume" load times for SDR, MDR, and BAM stops.
- b. Please provide the average load time for the entire sample of one-letter delivery stops for SDR, MDR and BAM stops.
- c. For the estimates of "fixed time at stop" provided in this table, please provide the standard deviations of these estimates for the SDR, MDR, and BAM stop types.

**RESPONSE:**

a. See page 11, lines 4-16 of my testimony. The purpose of choosing the lowest 20<sup>th</sup> percentile was to obtain enough observations to produce reliable estimates of the minimum load times at one-letter stops.

b-c. The file FixedTime.XLS included with USPS LR-H-140 provides the data necessary to perform these calculations. I did not calculate the requested average load times as part of my analysis. However, I can report the following standard deviations (in seconds) for the 20<sup>th</sup> percentile data subsets used to calculate fixed time at a stop:

<b>SDR</b>	<b>0.234</b>
<b>MDR</b>	<b>0.277</b>
<b>BAM</b>	<b>0.251</b>

**NAA/USPS-T17-2. Please refer to page 11, lines 15-17. You describe your estimates of fixed time per stop as "upper bound" estimates.**

- a. Please discuss what you would consider to be a reasonable "lower bound" of the fixed time per stop.
- b. To the extent your fixed time per stop estimates represent the "upper bound" of the reasonable fixed time at stop, please confirm that application of these estimates will result in lower estimates of volume variable load-time costs than would the use of a "lower bound" estimate. If you cannot confirm, please explain your response.

**RESPONSE:**

- a. A reasonable lower bound would be the smallest values of any set of estimates that directly measure pre-loading preparation time. These estimates would, specifically, measure the time carriers spend immediately prior to the point when they first begin handling mail pieces, bundles, mail containers, or other mail-related equipment at a stop for purposes of loading receptacles. Moreover, it is expected that these pre-loading times would be completely independent of, and hence uncorrelated with the volumes of mail that are eventually handled and loaded. The minimum of the pre-loading values would therefore be quite small, falling within the neighborhood of the 1 second per stop range that is estimated in my testimony for fixed-time per stop, as shown in table 1, page 12 of that testimony.
- b. Confirmed. The higher the estimate of fixed-time per stop, the greater will be the cost that is removed from the accrued load time pool and moved into the access cost pool.

**NAA/USPS-T17-3. Please refer to Equations (1) and (3) on pages 7 and 8 of your direct evidence. These equations are used to measure the volume variability of load time with respect to volume.**

- a. Please provide your interpretation of the coefficient  $\alpha$  in each of these equations.**
- b. Does the coefficient  $\alpha$  provide an estimate of the average fixed time per stop? If not, please explain why not.**
- c. Does the average fixed time per stop vary depending upon receptacle or container type? Please explain why or why not.**

**RESPONSE:**

- a. This intercept coefficient is added to the load-time equation to improve the fit of the ordinary least squares (OLS) estimation of the entire set of right hand side coefficients. Without the  $\alpha$  term, the OLS estimation would be forced to set the intercept at zero. This would produce biased estimates of the slope coefficients.**
- b.  $\alpha$  predicts carrier time at zero volumes and deliveries. However, the 1985 test data sets contain no actual data on carrier time expended when volumes and deliveries equal zero. Therefore the estimates of  $\alpha$  in the regression equations (used in my testimony), which were derived from the 1985 test data set, are simply artifacts of the estimation procedure. These estimates should not be interpreted as valid measures of fixed-time per stop - the time expended at zero volumes and deliveries. For example, the estimates of  $\alpha$  in the MDR and BAM regressions are both negative.**
- c. No. Receptacle and container types affect the amount of time spent in activities that involve the handling of mail or mail-related equipment. These activities include the three elements of load time defined on page 39 in the 1985 Load Time Variability Test, Industrial Engineer Test Package, which was presented in Docket No. R87-1, USPS LR-E-4. See my response to question 4a. Fixed-time at a stop measures the work performed immediately prior to the initial handling of mail or mail-related equipment.**

Response of Witness Baron to Interrogatories of the Newspaper Association of America (NAA)  
Revised September 26, 1997

NAA/USPS-T17-4. Please refer to Equations (1) and (3) on pages 7 and 8 of your direct evidence.

- a. Please confirm that the dependent variable, load time, in each of these equations is equal to the total load time at a particular stop, including both fixed time activities (i.e., related to the "stops effect") and the time directly related to loading and collecting mail. If you cannot confirm, please explain what measure of load time was used in each of these equations.

RESPONSE:

a. Partially confirmed. The dependent variable, load time, does equal the total load time at a particular stop. However, observe first that the load-time variable as defined for purposes of the regression equations does exclude fixed-time at a stop. This load-time variable equals the sum of three components: "mail preparation time," "load time," and "customer attend time." The exact definitions of these three components are presented on page 39 of the Load Time Variability Test, Industrial Engineer Test Package (August 1985), which was filed as USPS LR-E-4 in Docket No. R87-1. (These definitions are attached). Note, in particular, the definition of mail preparation time. This activity is the handling of mail pieces, bundles, containers, or other mail-related equipment. As such, the mail preparation time interval is necessarily dependent on the volume of mail being loaded or collected. It will increase or decrease as volume increases or decreases. Thus, as defined, mail preparation time does not include the pre-loading prep time encompassed by fixed-time at a stop, since the latter, by definition, is completely independent of total volume loaded or collected at a stop.

Nevertheless, despite these definitions, it is clear that the data collectors who recorded the actual observations of load time during the 1985 load-time tests made no effort to explicitly exclude fixed-time per stop from their measures of carrier time. Thus, some portion of each 1985 recording of load time certainly measures the fixed-time component. Note, however, that this fixed-time portion must be very small. It cannot exceed the minimum carrier time expended at a one-letter stop - an amount of time I estimate as approximately one second.

~~cannot include the pre-loading prep time encompassed by fixed-time at a stop, since the latter, by definition, is completely independent of the total volume to be loaded or collected at a stop.~~

b. The procedure to derive the elasticities with respect to volumes is explained at pages 2-3 of USPS LR-H-137. The SAS program code and outputs in this library reference implement this procedure, and present the elasticity results. For each stop type (SDR, MDR, and BAM), the procedure substitutes average values for the right hand side variables in the appropriate load-time regression. This produces a predicted value for load time, and a set of predicted partial derivatives of load time with respect to the volume terms. This predicted load time does not equal the mean of the load-time values reported in the 1985 load time test, which are the values used to estimate the load-time regression.

c. The elasticity estimation procedure does not derive a mean load time.

d. Confirmed.

e. The load-time values in the 1985 test data set used to estimate the load-time regressions do not include a fixed-time at stop component. See my response to part a.

Attachment to Response  
to NAA/USPS-T17-4<sup>5175</sup>

**LOAD TIME VARIABILITY TEST**

**INDUSTRIAL ENGINEER  
TEST PACKAGE**

Foster Associates, Inc.  
Washington, D.C. 20036

August 1985

Inter Stop Time (Element 1) - This consists of carrier <sup>5176</sup> time spent along the line of travel of the route on the street and in going to and returning from a stop, but excluding any time spent handling mail at the stop. The element begins when the carrier starts away from a stop after completing the mail and customer-related activities required at that stop. The element ends when the carrier reaches the next stop and starts the mail and customer-related activities required at that stop. For example, walking up and back over a front pathway is inter stop time; time spent slowing the vehicle for a stop and resuming speed after the stop for curblin delivery is inter stop time.

Mail Preparation Time (Element 2) - This consists of carrier time spent handling mail at or adjacent to a stop to prepare it for delivery or after collection. The element begins when the carrier starts handling mail or mail-related equipment and ends when the mail or equipment is appropriately ready for delivery or after collection. For example, separating a bundle of letters into batches destined to individual addresses is mail preparation time; combining flats and circulars from separate bundles is mail preparation time.

Load Time (Element 3) - This consists of carrier time spent at a stop to place mail into or onto a delivery receptacle and/or collect mail from a receptacle and/or perform mail-related customer services. The element begins when the carrier's hand starts moving with delivery mail towards the receptacle (after appropriate mail preparation) or reaching towards the receptacle for collection mail. The element ends when the carrier is ready to leave the receptacle. For example, putting a bundle of mail into a customer mail box and collecting a letter from inside the box is load time; inserting letters and newspapers through a door slot is load time; signing for a registered parcel is load time.

Attending Customer (Element 4) - This consists of carrier time spent serving or awaiting a customer with a mail item requiring individual treatment. The element begins when the carrier starts treating the affected piece of mail or customer as an individual item (such as departing from the normal line of travel or waiting for the customer to respond). The element ends when the carrier completes the required individual treatment and resumes routine operations. For example, going from a multiple apartment mail box to and from resident's apartment to deliver a parcel is attending customer time; ringing a doorbell, waiting, obtaining no response, and providing a "Notice of Attempt to Delivery" is attending customer time.

Delay for Study (Element 5) - This consists of any time delay to the carrier's performance or schedule caused by the ongoing load time variability test. For example, a delay after completing a stop because there was a large volume of collected mail for the IE to count is delay for study.

**NAA/USPS-T17-5. Please refer to Table 14 at page 39.**

- a. Please confirm that total accrued load time costs amount to \$995,848 thousand under both the new and previous methodology. If you cannot confirm this figure, please explain.
- b. Please confirm that \$139,504 thousand of these total accrued costs are "fixed" or "coverage-related" load-time costs under the new methodology. If you cannot confirm this characterization of these costs, please explain what these costs represent.
- c. Please confirm that \$522,577 thousand of the total accrued costs are volume-variable load time costs, If you cannot confirm this figure or this characterization of these costs, please explain.
- d. Please explain whether the remaining \$333,866 thousand (\$995,848 less \$139,405 less \$522,577) of costs are fixed or variable in nature.
- e. Given that these costs are not fixed costs associated with coverage of the stop and that these costs are not variable with volume, please explain what the remaining \$333,866 thousand of costs represent.

**RESPONSE:**

- a. Not confirmed. Under the new methodology, this cost is not regarded as the true total accrued load time cost. Instead, total accrued load time cost is defined as the \$856,443 thousand that remains after the cost of fixed-time at a stop (\$139,405) is deducted and moved into the access cost pool.
- b. The \$139,405 thousand cost pool is defined as the cost of fixed-time at a stop under the new methodology. This cost does not increase in response to increases in volume at existing stops. In this sense, the cost is fixed at each actual stop (just like traditional access cost). Obviously, however, this cost will go up as actual stops increase in response to volume growth.
- c. Confirmed.
- d. These costs are residual institutional costs. They are still variable in the sense that they will fall to zero if volume falls to zero.
- e. See my response to part d.

**NAA/USPS-T17-6. Please refer to page 24, lines 8-15. You state that the "previous" approach uses equations 1 and 3 to calculate volume effects, and that the "only difference between this procedure and that proposed in Part 1 - Section 1 is the size of the cost pool by which the volume elasticities are multiplied to determine the volume-variable costs."**

- a. Please compare the elasticities provided in Table 10 at page 29 (previous methodology) to the elasticities provided in Table 6 at page 22 (new methodology). Please explain why the elasticities applied to calculate volume-variable load-time costs for MDR stops are 0.65129 under the "previous" methodology and 0.71026 under the "new" methodology if the only difference is the size of the cost pool to which the elasticities are applied.**
- b. Please explain any and all differences in the equations or calculations used to estimate the different elasticities described in part (a) above.**
- c. Please compare the elasticities provided in Table 11 at page 30 (previous methodology) to the elasticities provided in Table 7 at page 23 (new methodology). Please explain why the elasticities applied to calculate volume-variable load-time costs for BAM stops are 0.52107 under the "previous" methodology and 0.52665 under the "new" methodology.**
- d. Please explain any and all differences in the equations or calculations used to estimate the different elasticities described in part c above.**

**RESPONSE:**

**(a)-(d). The elasticity estimation procedures implemented by the new and previous methodologies for both MDR and BAM are the same in the sense that the same computational steps are performed. Specifically, mean values are calculated from FY 1996 CCS data or 1985 test data and substituted for the right hand side variables in the load-time equations. This produces predicted values for load time and for the partial derivatives of load time with respect to the volume and delivery terms. These predicted values are then substituted, along with the averages of the right hand side variables, into the standard formulas to produce elasticity estimates.**

**As shown in USPS LR-H-137 (see pages 2-3 and the SAS program and output listings), the application of these steps produces different elasticity estimates under the new methodology as compared with the previous methodology. The new methodology substitutes average actual deliveries for the deliveries variable on the right hand sides of the MDR and BAM equations, whereas the previous procedure substitutes average possible deliveries for the deliveries variables. It is this difference that accounts for the**

differences between the MDR variability estimates in tables 10 and 6 of my testimony, and the differences between the BAM estimates shown in tables 11 and 7 of that testimony.

**NAA/USPS-T17-7(a). Please explain what work a carrier performs "to prepare for loading receptacles and collecting mail."**

**RESPONSE:**

**Please see my response to T17-8(b).**

5

**NAA/USPS-T17-8.** Please refer to line 15 on page 36 and lines 1-15 on page 37 of your direct evidence.

a. Does evidence exist that the additional block of time resulting from the coverage of a new delivery at an existing actual stop should not be the same as the additional block of time that results from coverage of a whole new MDR or BAM stop? If so, please provide such evidence and explain simply the significance of such evidence.

b. Please explain what work a carrier performs to prepare for loading receptacles and collecting at a new multidelivery actual stop.

c. Please explain what work a carrier performs to prepare for loading receptacles and collecting at a new actual delivery at an existing stop.

d. If the work performed related to T17-8(b) and (c) is different, please explain how that difference supports recognizing the work performed related to T17-8(b) as "simply a component of access time" while recognizing the work performed related to T17-8(c) as "accounted for through the measurement of MDR and BAM elasticities of load time with respect to volume through the positive effect of volume increases on actual deliveries."

**RESPONSE:**

a. The requested information is derived in a new library reference, USPS LR-H-225.

This library reference presents an extended version of the SAS program,

LOAD2.ELAST.CNTL, presented in USPS LR-H-137 (which accompanied my

testimony). The new program adds a print out of the derivatives of MDR and BAM load time with respect to actual deliveries. These derivatives, computed from the

corresponding Postal Rate Commission load-time regressions, are the same as those substituted into the elasticity formulas to produce the elasticity estimates shown in tables

6 and 7 of my testimony. Each derivative measures the "additional block of time

resulting from the coverage of a new delivery at an existing stop." The following table

compares these derivatives with MDR and BAM fixed-time at stop estimates, obtained

from table 1 of my testimony. Each fixed-time estimate measures an "additional block of time that results from coverage of a whole new MDR or BAM stop."

Stop Type	Derivative of Load Time With Respect to Actual Deliveries (Seconds)	Fixed Time at Stop (Seconds)
MDR	3.801	1.110
BAM	10.112	0.919

Response of Witness Baron to Interrogatories of the Newspaper Association of America (NAA)  
Revised September 26, 1997

NAA/USPS-T17-8. Please refer to line 15 on page 36 and lines 1-15 on page 37 of your direct evidence.

- b. Please explain what work a carrier performs to prepare for loading receptacles and collecting at a new multidelivery actual stop.

RESPONSE:

b. This work is the activity of preparing to handle mail pieces, mail bundles, or mail-related equipment and to then place the mail into receptacles or collect mail from receptacles. This work occurs immediately after the carrier reaches the stop, and just prior to the initiation of the first loading activity at the stop. Note that the time required to do this work - what the Postal Rate Commission at paragraph 3125 of its R90-1 Decision calls coverage-related load time, and what my testimony calls fixed time per stop - is independent not only of the total volume delivered to the stop. It is also independent of the number of deliveries that get mail at that stop.

The implication of this table is that at the mean values of the right hand side regression variables used to estimate elasticities, the time to cover a new delivery at an existing MDR or BAM stop exceeds the fixed-time at stop required for pre-loading work.

b. This work is the activity of preparing to handle mail pieces, mail bundles, or mail-related equipment and to then place the mail into receptacles or collect mail from receptacles. This work occurs immediately after the carrier reaches the stop, and just prior to the initiation of the first loading activity at the stop. Note that the time required to do this work - what the Postal Rate Commission at paragraph 3158 of its R90-1 Decision calls coverage-related load time, and what my testimony calls fixed time per stop - is independent not only of the total volume delivered to the stop. It is also independent of the number of deliveries that get mail at that stop.

c. Pre-loading preparatory work has already been completed at a multi-delivery stop by the time mail has been loaded at one or more deliveries. No further preparatory work is performed by a carrier in proceeding from the last delivery loaded to a new delivery at the same stop. For a more detailed explanation of this difference between the activity of going from one actual stop to a new actual stop, and that of going from one actual delivery to a new actual delivery at the same stop, see Carrier Cost System, Handbook F-55, USPS LR-H-25 at pages 21-24.

d. The increase in time that occurs when a carrier proceeds from one delivery at a stop to a new delivery at the same stop is an increase in load time - properly accounted for through the measurement of elasticities of load time with respect to volume through the effects of volume growth on deliveries. The increase in fixed-time per stop that occurs because a carrier has accessed a new stop is, by definition, an increase in access time. Obviously, an increase in access time should be accounted for not in the load-time analysis, but in the traditional access time analysis - in particular, through measurement

of the elasticities of running time with respect to actual stops, and the elasticities of actual stops with respect to volumes.

Response of Witness Baron to Interrogatories of the Newspaper Association of America, Questions 9-16,  
Docket No. R97-1

NAAUSPS-T17-9. Please refer to your response to NAAUSPS-T17-1, part (a).

- a. What, if any, statistical tests did you apply to determine the sample size of one-letter stops necessary to accurately estimate minimum load times? Please provide a complete description of these tests.
- b. Is the lowest 20<sup>th</sup> percentile sample you employ to derive these estimates the smallest sample one can use to generate "reliable" estimates? If so, please explain your response in detail. If no, please indicate the smallest sample that can be used to generate a "reliable" estimate and please explain how you derived this figure.

**RESPONSE:**

a. It is not clear what is meant by "statistical tests." For purposes of my answer, I will assume that this term refers to a formal statistical procedure that uses available data to estimate a population statistic (such as a population mean or population proportion). This procedure then estimates the standard error of the sampling distribution of all possible sample estimates of that statistic. A typical objective is the assurance that the 90, 95 or 99 percent confidence interval around the one sample estimate that is actually calculated will bracket the true population value, and that the upper and lower bounds of this interval will not exceed a certain threshold level. Finally, the required sample size is calculated as the minimum size necessary to yield a standard error that is low enough to produce this desired confidence interval.

Based on this assumption, the answer is that I did not perform such a test. The reason is that a key premise of the statistical procedure just described does not hold for my analysis. This premise is the assumption that the available sample data really qualify in the first place as true observations for the variable being analyzed.

Response of Witness Baron to Interrogatories of the Newspaper Association of America, Questions 9-16, Docket No. R97-1

In my analysis, the variable being analyzed is fixed-time at stop. The first objective of a formal statistical analysis would be to estimate the population mean value of this fixed-time at stop for the population of all stops of a given stop type.<sup>1</sup> The available sample that one might use to estimate this population mean would be the 1985 test observations of carrier times at one-letter stops. One might be tempted to view these times as true values for fixed-time at stop, and then calculate the average of these times, or the average of a sub-sample (such as the lowest 20<sup>th</sup> percentile). This average might then be viewed as an estimate of the population mean fixed-time at stop. Finally, one might conceivably attempt to determine the minimum sample size required to produce a standard error for the time estimate that is low enough to ensure that the confidence interval around this estimate would satisfy a threshold requirement.

In fact, however, none of the 1985 carrier times recorded at one-letter stops are true observations of fixed-time at stop. They are, at best, upper-bound proxies for the true, unobserved fixed-time at stop. Indeed, the highest values among these one-letter carrier times aren't even very useful as proxies. Only the lowest values are. Thus, the average of the sample or sub-sample of one-letter carrier times can only qualify as a "statistically" valid estimate of the population mean of total fixed time plus load time at all one-letter stops. It cannot be viewed as a statistically valid estimate of the population mean of just the fixed-time component.

In summary, the key requirement of the formal statistical procedure for determining minimum sample size required to achieve a specified confidence interval is not met. The values of the available sample are not values for what needs to be estimated. Common sense and professional judgment must be used to determine the minimum number of observations for estimating what is really unobserved - the amount of time spent prior to when loading begins.

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<sup>1</sup> Another problem with the formal statistical approach is that it is difficult to even conceptualize a population "mean" fixed-time at stop. Fixed-time at stop is supposed to be the same at all stops. Indeed, how else could it be fixed? The statistical approach, however, assumes that within the population of all stops, a range of different values for fixed-time at stop is clustered around a population mean. If fixed-time at stop is truly fixed, where do these differences in value come from?

Response of Witness Baron to Interrogatories of the Newspaper Association of America, Questions 9-16,  
Docket No. R97-1

b. Please see my response to part (a) above, and to UPS/USPS-T17-4, parts (a) through (d). There is no way to test whether a smaller sample would have been sufficient. The assumptions required to perform a "scientific" calculation of required sample size do not hold.

Response of Witness Baron to Interrogatories of the Newspaper Association of America, Questions 9-16, Docket No. R97-1

NAA/USPS-T17-10. Please refer to your response to NAA/USPS-T17-2, part (a).

- a. Please confirm that a reasonable "lower bound" of fixed time per stop would be less than the related figures you describe in your testimony as being "upper bound" estimates. If you cannot confirm, please explain your response fully.
- b. If part (a) is confirmed, please provide a specific value for the lower bound of the fixed time per stop for SDR, MDR, and BAM stops.
- c. Please explain in detail the methods you used to derive the values presented in part (b) above.

RESPONSE:

- a. Confirmed. Observe, however, that even the upper bound estimates equal only about 1 second. So any discrepancy between these estimates and the unobserved true values must be less than 1 second. Thus, the discrepancy falls within the range of ordinary measurement and rounding error.
- b. There are no data available to measure the lower bound. The only available data are the 1985 test observations at one-letter stops. These can only be used to estimate the upper bound.
- c. Not applicable.

Response of Witness Baron to Interrogatories of the Newspaper Association of America, Questions 9-16,  
Docket No. R97-1

**NAAUSPS-T17-11. Please refer to your response to NAAUSPS-T17-4, part (e).**

- a. Do the load-time values in the 1985 test data set used to estimate the load-time regressions include load times for one-letter stops? If no, please explain.
- b. If part (a) is affirmative, please confirm that you employ a sample of these one-letter stops (i.e., the lowest 20<sup>th</sup> percentile) to derive your estimates of fixed time per stop. If you cannot confirm, please explain your response.

**RESPONSE:**

- a. Yes.
- b. Confirmed.

Response of Witness Baron to Interrogatories of the Newspaper Association of America, Questions 9-16,  
Docket No. R97-1

NAA/USPS-T17-12. Please refer to your response to NAA/USPS-T17-3, part (b).

- a. Please explain why you are relying on 1985 data. Are there no more recent data that can be used to estimate load-time regressions? If no, why not?
- b. Please confirm whether carrier activities have changed since 1985. If yes, explain how.
- c. Please confirm whether carrier efficiency has increased since 1985. If yes, how has efficiency increased? If not, why not?

**RESPONSE:**

- a. There are no more recent data that can be used. My understanding is that the Postal Service has decided that the potential benefits of a new load-time test in terms of resulting improvements in variability estimates have not yet justified the expenditure of limited resources.
- b. Confirmed. Carrier load-time activities have changed, for example, as a result of the additional bundles of mail that many carriers must now carry in order to keep delivery point sequenced (DPS) mail separated from non-DPS mail. (DPS mail is mail that arrives at the delivery unit having already been sorted in delivery point sequence by mailers, or by upstream postal facilities).
- c. I am unaware of any data that could be used to measure the relative productivities of loading operations in 1985 compared with loading productivities in more recent time periods. It is true that the estimated load-time volume variabilities are less than 100 percent for all three stop types - SDR, MDR, and BAM. Moreover, this result implies that, all else held constant, as volume has increased from 1985 to the present, productivities should also have increased. However, this increase could also have been offset by other developments (for example, the increase in DPS mail) that have reduced loading productivities at all volume levels.

Response of Witness Baron to Interrogatories of the Newspaper Association of America, Questions 9-16, Docket No. R97-1

NAA/USPS-T17-13. Please refer to your response to NAA/USPS-T17-5, part (d).

- a. Please provide a complete definition of the term "residual institutional costs."
- b. Please indicate whether the term "residual institutional costs" has been used previously in the rate setting context and please explain how and when this term was used.
- c. Please define "variable" costs and explain whether your definition is consistent with standard economic terminology.
- d. According to standard economic theory, are these "residual institutional costs" fixed or variable in nature? Please explain your response.
- e. Assuming that volume falls substantially, would the "residual institutional costs" as you describe them in your response still equal \$333,866 thousand? If yes, please explain why these costs will remain fixed. If not, explain why not, and discuss the likely magnitude of the change in these costs.
- f. Assuming that volume falls to one piece, would the "residual institutional costs" as you describe them in your response still equal \$333,866 thousand? If yes, please explain why these costs do not vary with large changes in volume. If no, please explain why not and describe how these costs will change with changes in volume.

f  
f

**RESPONSE:**

- a. In this context, residual institutional cost equals accrued load-time cost minus volume-variable load time cost, where volume-variable load-time cost equals the product of the aggregate elasticity of load-time with respect to volume and accrued cost.
- b. I do not know whether it has or not. To me, the question is irrelevant. I use the word residual only because common sense indicates it is the correct word to define the excess of one number over another number.
- c. Variable costs are the costs of labor, capital, material and other inputs whose level of use depends on the amount of volume being loaded. Thus, variable costs are costs that fall to zero when volume falls to zero. I view this definition as being consistent with standard economic terminology.

Response of Witness Baron to Interrogatories of the Newspaper Association of America, Questions 9-16, Docket No. R97-1

d. They are variable. They fall to zero when volume falls to zero. This is why they are poor measures of fixed-time at stop, which is supposed to be independent of volume.

e. No, these costs would be lower. Obviously, if volume were to fall to a much lower level and remain there, total costs would be lower. The reduction in costs to this new lower level would obviously be a reduction in variable costs, some of which is residual institutional cost. The magnitude of the reduction would depend upon the magnitude of the volume loss.

f. First, I assume that the volume referred to in this question is aggregate annual system-wide volume delivered to all SDR stops, as this is the volume to which the \$333,866 thousand corresponds. If this volume falls to one piece, then residual institutional cost would fall substantially. Residual institutional cost is accrued cost minus the product of accrued cost and the aggregate elasticity of load time. If volume equals only one piece, both accrued cost and the product of accrued cost and the aggregate load-time elasticity would be very small, as would the excess of the former over the latter.

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Response of Witness Baron to Interrogatories of the Newspaper Association of America. Questions 9-16, Docket No. R97-1

NAA/USPS-T17-14. Please refer to your response to NAA/USPS-T17-3, part (b).

- a. Aside from the fact that the estimates of  $\alpha$  in the MDR and BAM regressions are both negative, are there additional reasons why these estimates should not be interpreted as valid measures of fixed-time per stop? Please list and explain all these reasons.
- b. Do the negative estimate of  $\alpha$  in the MDR and BAM regressions indicate that the incorrect functional form was used to estimate the equations? Please explain your response fully.
- c. If the regression coefficient  $\alpha$  was used to estimate fixed-time per stop at SDR stops, what would be the resulting fixed-time per stop? How does this estimate compare to your estimate of fixed-time per stop based upon the lowest 20<sup>th</sup> percentile of one-letter stops for SDR stops?

**RESPONSE:**

a. It is true that in a strict mathematical sense,  $\alpha$  predicts carrier time at zero volumes and deliveries, which is fixed-time per stop. To be precise, it does so in the MDR equation only when it is first assumed that the dummy variables, MR2, MR7, and MR8 all equal zero, and in the BAM equation when it is assumed that MR6, MR8, CT1 and CT3 all equal zero. If for example, MR7 in the MDR equation equals 1 (indicating that the receptacle type is NDCBU), then the combination of  $\alpha$  plus the coefficient for MR7 provides the predicted MDR carrier time at zero volumes and deliveries.

In practice, the MDR and BAM regression estimates of  $\alpha$  are nevertheless invalid measures of fixed-time at stop, not only because they are negative, but because they are derived from data sets that contain no actual observations of carrier time at zero volumes and deliveries. Thus, the  $\alpha$  estimates apply to regions of data outside the ranges of data used to produce those estimates.

b. No. The intercept is added to each load-time equation not to provide an empirically valid measure of carrier time at zero volumes and deliveries (i.e., fixed-time per stop), but to improve the fit of the OLS estimation of the entire equation, and to ensure that estimates of the slope coefficients are unbiased. This objective is achieved regardless of whether the estimate of the intercept coefficient is negative.

Response of Witness Baron to Interrogatories of the Newspaper Association of America, Questions 9-16,  
Docket No. R97-1

c. The fixed-time per stop would be 1.115 seconds. This is slightly higher than the 1.052 seconds that I estimate for fixed-time per stop based on the lowest 20<sup>th</sup> percentile of one-letter SDR stops. Observe also that for this estimate of  $\alpha$  to be viewed as a fixed-time per SDR stop, the dummy variables MR1-MR5, MR7-MR10, and CT1, CT3, CT4, and CT6 must also be assumed to equal zero.

Response of Witness Baron to Interrogatories of the Newspaper Association of America, Questions 9-18,  
Docket No. R97-1

NAA/USPS-T17-15. Please refer to your response to NAA/USPS-T17-8, part (b).  
Please confirm the correct paragraph reference in R90-1 for "coverage-related load  
time."

**RESPONSE:**

The reference should have been to paragraph 3125 in the R90-1 Decision.

Response of Witness Baron to Interrogatories of the Newspaper Association of America, Questions 9-16,  
Docket No. R97-1

**NAA/USPS-T17-16.** Please refer to your response to NAA/USPS-T17-5, part (b).

Please confirm whether the last sentence of part (b) of your response refers to the \$11,608 thousand figure in table 14 of page 39 of your testimony. If not, where is the volume variability involved in the "actual stops increase in response to volume growth" accounted for?

**RESPONSE:**

Confirmed.

## Response of Witness Baron to Interrogatory of United Parcel Service

**UPS/USPS-T17-1.** Please provide the number of new delivery addresses for each year from FY 1987 (or, if not available by fiscal year, by calendar year) up to and including FY 1996 (or calendar year 1996).

**RESPONSE:**

The following figures on possible delivery points are estimates reported in the Comprehensive Statement on Postal Operations for fiscal years 1987 through 1996. All figures are in millions.

FISCAL YEAR	CITY DELIVERIES	RURAL DELIVERIES	HIGHWAY CONTRACT DELIVERIES	POST OFFICE BOX POSSIBLE DELIVERIES
1987	76.2	18.6	1.1	Not Available
1988	77.2	19.3	1.1	17
1989	77.9	19.9	1.2	17
1990	78.1	20.7	1.3	17.9
1991	78.5	22	1.4	18.2
1992	78.9	22.5	1.4	18.8
1993	79.5	23.5	1.5	19
1994	80	23.6	1.5	20.2
1995	80.7	24.7	1.6	20.8
1996	81.1	25.5	1.6	19.6

UPS/USPS-T17-2. Please refer to page 6, line 7, of your testimony.

- (a) Please confirm that the fixed time at each stop is equal to a period of time that does not vary from stop to stop. If not, please explain.
- (b) Have you analyzed the extent to which a carrier's time to prepare for loading and collecting mail does not vary from stop to stop? If so, explain your analysis and provide copies of any supporting workpapers or other documentation. If not, on what basis do you assume that time to prepare for loading and collecting mail is fixed?

RESPONSE:

(a) Fixed-time at stop measures the same activity that the previous concept of accrued coverage-related load time measures. Both concepts are defined as time that does not vary as the volume loaded and collected at a given stop or given set of stops changes, and that only varies as the number of actual stops changes. Based on my understanding of the record from previous rate cases, beginning with Docket No. R87-1, the previous load-time methodology always assumed that the magnitude of coverage-related load time did not vary from stop to stop. I see no theoretical or empirical basis for changing this assumption.

(b) As stated on page 10, lines 18-22, of my testimony, the most effective method for estimating fixed-time at stop is direct measurement of the time carriers spend prior to loading and collecting mail. No such measurements have been taken. This lack of data also precludes any direct analysis of the extent to which carrier time spent in preparing to load and collect mail varies from stop to stop.

I assume that the time to prepare for loading and collecting is fixed from stop to stop because I see no basis for expecting any systematic increase or decrease to occur as the number of actual stops changes. Note also that the time period being analyzed here is very short - only about one second. This leaves very little room for any measurable, significant change in the amount of time that is being expended per stop as the number of actual stops increases or decreases.

UPS/USPS-T17-3. Please refer to page 10, lines 10-12 of your testimony, where you state "Of these 1,373 tests, the lowest recorded load time was 0.4 seconds. However, load times at one-letter stops varied from this low to a high of 6.34 seconds." Please reconcile this statement with the data contained in USPS-LR-H-140 wherein the load time at SDR stops receiving only one letter range from 4 tenths of a second, to 634 tenths of a second (i.e. 0.4 seconds to 63.4 seconds).

**RESPONSE:**

The section cited from page 10 of the testimony contains an error. The number 6.34 should be 63.4. Lines 8 through 11 should therefore read as follows:

Of these 1,373 tests, the lowest recorded load time was 0.4 seconds. However, load times at one-letter stops varied from this low up to a high of 63.4 seconds. Now, clearly, 63.4 is too high as an approximation of the amount of time spent prior to loading a single letter.

Note that this correction further supports the point I am making about measuring fixed-time at stop - namely, that only the lowest observed times recorded at stops receiving one letter should be used to estimate this fixed time.

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UPS/USPS-T17-4. Please refer to the paragraph beginning at page 11, line 6, of your testimony.

- (a) What statistical/econometric theory have you relied upon to support using the lowest 20<sup>th</sup> percentile of load times for one letter deliveries to determine the upper bound of fixed-time per stop?
- (b) If not based on statistical/econometric theory, what is your rationale for using the lowest 20<sup>th</sup> percentile of the tests of load times for one letter deliveries to determine the upper bound of fixed time per stop? Please explain and provide supportive documentation.
- (c) Have you determined that using the lowest 20<sup>th</sup> percentile of the tests versus the lowest single observation (i.e., 0.4 seconds) yields a more accurate estimate of the fixed time at stop? If so, please explain.
- (d) Please explain why the lowest 10<sup>th</sup> percentile of the tests would not serve as an appropriate estimate of the upper bound of fixed-time per stop.
- (e) Please confirm that, by definition, the load time relating to 20% of all one letter deliveries would be considered fixed under the proposed treatment of the fixed-time at stop. Please explain any nonconfirmation.
- (f) Please explain why you consider it inappropriate to rely on the load time of 0.4 seconds as observed in 5 out of 1,373 SDR tests conducted at one-letter stops.
- (g) Have you determined that the 5 observations of 0.4 seconds referred to in (f) above are outliers? If so, please provide all analyses demonstrating this fact.
- (h) Please identify all evidence suggesting that the 5 observations of 0.4 seconds referred to in (f) above are not an accurate representation of the upper bound on fixed-time at stop.
- (i) Please explain why a subset of tests representing the lowest load times is more accurate than the lowest observation in estimating the upper bound on fixed-time per stop.

## RESPONSE:

(a) The rationale for choosing the lowest 20<sup>th</sup> percentile of load times for one-letter stops (not deliveries) is presented at page 9, line 18 through page 11, line 10. This rationale is not derived from statistical/econometric theory. It is derived from common sense. Any given record of time spent loading one letter piece is bound to contain measurement error. This error results from the inherent imprecision in the measurement tool being used (namely, the OS-3 Event Recorder equipment described in Docket No. R87-1, Exhibit USPS-7C and USPS LR-E-4), and the application of that tool by the data collector.

Consider, for example, the five tests that produced the lowest observed measurement - 0.4 seconds - of the time spent loading a letter at an SDR stop. Suppose an second observer had recorded times for these same five tests. The resulting second set of five time measurements would almost certainly have been different from the set actually recorded. It would be no surprise if, for example, the second observer had recorded a time of, say, 0.8 seconds for any of these five tests, instead of 0.4 seconds.

The logical response to this inherent measurement error problem is to not rely on only one observation or on a very few observations to derive estimates of the fastest times to be expected at one-letter stops. Instead, a much larger sample of observations is selected to minimize the impact of measurement error on the final estimate.

(b) Please see my response to part (a).

(c) The choice of the lowest 20<sup>th</sup> percentile of the tests instead of just the single lowest observation was based on the view that the number of sample observations required to produce a reliable measure of fixed-time per stop across all stops in the population is greater than one. Also, see my response to part (a).

(d) The lowest 10<sup>th</sup> percentile of the tests is an alternative to the lowest 20<sup>th</sup> percentile of tests. However, as explained at pages 9-11 of my testimony, the lowest 20<sup>th</sup> percentile, 275 SDR tests, was judged to be an appropriate sample size for calculating a reliable estimate of fixed-time at stop.

(e) It is not clear what is meant by the word fixed in this context. If what is meant is that the time measured at 20% of the one-letter stops tested in the 1985 study would not have increased in response to increases in volumes above one letter piece, then clearly the block of time is not fixed. Obviously, if more than one letter had been loaded, load time would have been higher.

The correct interpretation of the load times measured in this 20<sup>th</sup> percentile subset of test stops is that they provide a basis for estimating the upper bound on the amount of time that **would have been expended** had the carrier stopped activity just prior to the handling of mail pieces, bundles, or mail-related equipment. The data are used for this purpose because of the lack of any other empirical basis for directly measuring a time interval that is supposed to be fixed with respect to total volumes loaded and collected at a stop.

(f) The reason I did not choose to use 0.4 seconds was my concern over estimation accuracy. Only 5 observations out of 1,373 reported 0.4 seconds. Such a sample appeared to me to be much too small to produce a defensible estimate of fixed-time at stop, especially in view of the fact that such an estimate affects the determination of how hundreds of million of dollars in carrier costs should be split between the volume-variable and institutional cost pools. See also my response to part (a).

(g) These 5 observations are outliers in the sense that they represent the lowest 0.4% (5/1,373) of load times observed at one-letter SDR stops.

(h) There is no direct evidence that these 5 observations of 0.4 seconds are inaccurate, or, for that matter, less accurate than any other subset of 5 observations. However, any subset of 5 observations must be viewed skeptically as a source of data to derive reliable estimates for an entire population of stops.

(i) Please see my answer to parts (d) through (h)..

UPS/USPS-T17-5. Please refer to the data set included as part of USPS-LR-H-140. Please confirm that each recorded load-time observation includes the fixed-time at stop plus some volume variable time relating to actual load time. If confirmed, please explain why the time recorded for 113 SDR stops (ranging from 0.4 seconds to 1 second) were less than the alleged fixed time component (e.g. 1.052 seconds for SDR stops). How does the calculation of the fixed-time at stop treat these observations (100% fixed)?

RESPONSE:

Confirmed. The estimate of 1.052 seconds for SDR stops was based on load time at one-letter stops, because there are no available data directly measuring the time spent at "zero volumes" loaded. Some one-letter stop observations recorded total load times less than this estimate of 1.052 seconds. The calculation of fixed-time at stop treats these observations as evidence, along with all other observations from the lowest 20<sup>th</sup> percentile, of the expected minimum time that is expended at one-letter stops just prior to the initiation of loading and collecting.

UPS/USPS-T17-6. Please refer to Page 13 of your testimony.

- (a) Please confirm that in the CATFAT study, at each stop the carrier was required to refer to a pre-numbered checklist and to check off the corresponding stop number. If not, please explain.
- (b) Please confirm that the activities referred to in (a) are unique to the testing process and not normal carrier delivery activities. If not, please explain.
- (c) Please confirm that the time required to perform the activities referred to in (a) are included as part of access time. If not, please explain.
- (d) Are you aware of any estimates of the time required to perform the activities in (a)? If so, please elaborate on such estimates, including an identification of all associated data sources, estimation methods, and results.
- (e) Please explain the extent to which the time related to the activities in (a) already account for the fixed-time at a stop.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed.

(c) Not confirmed. The time expended during the 1989 CATFAT study activities described in part (a) are not used to derive the pool of running time costs that include the access time costs calculated for time periods relevant to this Docket, such as base year 1996 and fiscal year 1996. Instead, the street-time sampling system (STS) proportions are used to break street time costs into this running time cost pool, as well as the other basic components: load time, street support, and collection. See Summary Description of USPS Development of Costs by Segments and Components, FY 1996, USPS LR-H-1, pages 7-2 through 7-8. The access cost portion of running time costs is then determined through application of the elasticities of running time with respect to actual stops. See my testimony at pages 44-67. The 1989 CATFAT data are used only to derive these elasticities, not the running time costs they are multiplied by.

(d) No.

**(e) Fixed-time at stop applies to one of the carrier's normal delivery activities. The activities in part (a) are unique to the CATFAT test, and are not part of the carrier's normal activities.**

**UPS/USPS-T17-7. Please refer to page 16, line 18, of your testimony.**

- (a) What is the level of correlation between possible deliveries and actual deliveries? Please identify the data used to test the level of correlation.**
- (b) Beyond the fact that possible deliveries and actual deliveries are highly correlated, did you test the extent to which possible deliveries operates as an effective proxy for actual deliveries in the regression estimation? If so, please explain your results.**
- (c) Based on the fact that changes in possible deliveries do not precisely measure changes in actual deliveries, to what extent does using possible deliveries as a proxy for actual deliveries either overstate or understate the actual deliveries effect? If there is an overstatement or understatement, have you evaluated various means to correct it?**

**RESPONSE:**

**(a) For MDR stops, the coefficient of correlation is 91.7%. For BAM stops, the coefficient of correlation is 90.7%. The 1996 CCS data file TPANL96.WEIGHT.DISK, documented in USPS LR-H-136, was used to derive these correlations.**

**(b) No. Also, it is unclear what is meant by the phrase "extent to which possible deliveries operates as an effective proxy for actual deliveries." If what is meant is that the partial derivatives of load time with respect to possible deliveries (derived from the available load-time regressions) are good estimates of the corresponding partial derivatives of load time with respect to actual deliveries, then there is no way to conduct a direct test. There are no available data sets containing observations on both load time and actual deliveries recorded at different stops. However, the high degree of correlation between actual and possible stops is strong evidence that these partial derivative estimates are, indeed, accurate.**

**(c) Because possible deliveries and actual deliveries are so highly correlated, the use of possible deliveries in place of actual deliveries does not significantly overstate or understate the actual deliveries effect.**

UPS/USPS-T17-8. Please refer to page 35, lines 1-17 of your testimony.

- (a) Please confirm that the volume elasticities, as calculated using equation (1) at page 7 of your testimony, would be different if the mean volumes used to calculate the elasticities were increased by 1%. If so, please explain why these elasticities would not be more appropriate to use in place of the 61% aggregate elasticity referenced in your illustration at page 35.
- (b) To what extent is the "flaw" referred to in your illustration caused by the fact that the volume elasticities are calculated at the mean? Please explain your answer.
- (c) Did you evaluate any alternative methods to estimate coverage-related costs that would eliminate the problem? If so, please explain your results and provide copies of your workpapers and other documentation.

RESPONSE:

- (a) Confirmed. I agree with the rationale for calculating elasticities at the mean values of the right-hand side variables (rather than at values one percent above the means) that is presented by the Postal Rate Commission in Docket No. R87-1, Appendices to Opinion and Recommended Decision, Appendix J, pages 26-27.
- (b) The "flaw" is not caused by the fact that the volume elasticities are calculated at the mean. The "flaw" is in the method used to calculate accrued coverage-related load time cost. This method produces a coverage-related load-time cost estimate that is not fixed with respect to volume loaded and collected at a stop.
- (c) Yes. Please see my testimony at pages 9-13. The new load-time methodology presented in this section refers to what was traditionally called coverage-related load-time cost as the cost of fixed-time at stop. This cost is explicitly calculated as a cost that increases only as the number of actual stops increases, and that remains constant at a given stop or set of actual stops no matter how much volume is loaded and collected at those stops.

## Response of Witness Baron to Interrogatories of United Parcel Service

UPS/USPS-T17-9. Please refer to your testimony at pages 34 to 36, and confirm that:

(a) Your residual load-time cost after deleting fixed-time costs (Table 4) and volume-variable costs (Table 5) for SDR stops is \$856,443,000-\$522,577,000 = \$333,866,000;

(b) The residual costs computed in (a) vary with volume and therefore do not conform to your criterion of "fixed" time as you define it for accrued coverage-related load-time cost at page 35, lines 18 to 21 or your testimony;

(c) Accordingly, your hypothetical demonstrates that the previous approach is "flawed" (page 34, line 18 of your testimony) to the extent that it ascribes the notion of "fixed" time (or cost) with respect to the residual \$388,211,000 in Table 8, in contrast to identifying these costs as "residual institutional" costs, but it does not prove that any of these costs are in fact "fixed" with respect to volume.

**RESPONSE:**

(a) I confirm that the initial accrued SDR load-time cost of \$995,848,000 minus the fixed-time at stop cost of \$139,405,000 equals the final accrued SDR load-time cost of \$856,443,000. I also confirm that \$856,443,000 minus my estimate of SDR volume variable cost, \$522,577,000 (table 5), equals \$333,866,000.

(b) Accrued coverage-related load-time cost, as defined by the Postal Rate Commission in Docket R90-1, is supposed to be fixed with respect to volume at a stop or at a given set of actual stops. However, as traditionally measured under the previous approach to load-time cost analysis, accrued coverage-related load-time cost does vary as volume varies. Thus, since the residual cost computed in part (a) does vary with volume, it does not conform with the definition of accrued coverage-related load time cost, but does conform with the traditional measurement of that cost.

(c) Partially confirmed. The previous approach cannot accurately be described as an attempted proof that residual institutional cost is fixed with respect to volume. To my knowledge, proponents of that approach never attempted such a proof. Apparently they did not consider that the residual cost will fall as volume

falls at a stop or at a set of stops, and therefore cannot qualify as fixed with respect to volume.

## Response of Witness Baron to Interrogatories of United Parcel Service

UPS/USPS-T17-10. Please refer to the calculation of load time elasticities as described at pages 2 and 3 of LR-H-137, and confirm the following:

- (a) Point estimates for predicted load time, as determined by substituting the 1996 CCS averages for the corresponding independent variables in the regression equation, include fixed time at stop;
- (b) The elasticities derived for these data in LOAD2.ELAST.CNTL are evaluated at the mean values, including fixed time at stop for the dependent variable load time;
- (c) If your estimates of fixed time per stop are deducted from the point estimates for predicted load time, then the resulting elasticity estimates are increased.

Please explain any nonconfirmation of the above, and include an explanation of why you included fixed-time per stop in your elasticity calculations.

**RESPONSE:**

(a) Not confirmed, based on my interpretation of the load-time regressions. I interpret each regression as an estimated equation that defines pure load time – time at stop excluding fixed time - as a function of volume or volume plus deliveries. Given this interpretation, the predicted load time derived through substitution of mean 1996 CCS values for letters, flats, parcels, and accountables (and mean 1985 values for collections and the dummy receptacle and container variables), should also be viewed as a prediction of load time exclusive of fixed-time at stop. See also my response to UPS/USPS-T17-11, part (a).

The alternative view is that each regression predicts load time plus fixed-time at stop. The problem with this interpretation is that if the regression really does predict the sum of load and fixed time, then it must be considered the proper source of the prediction for just the fixed time. Moreover, this regression estimate of fixed-time at stop would be the sum of the estimated intercept coefficient plus the appropriate (if any) estimated coefficients for the receptacle and container dummy variables. This sum, is, of course, negative in many

Response of Witness Baron to Interrogatories of United Parcel Service

cases. (For an example, see my response to UPS/USPS-T17-11, part (a). Therefore, this alternative interpretation of the regression forces the acceptance of negative estimates of fixed-time at stop.

(b) Not confirmed. See my response to part (a) of this question. Based on my interpretation of the load-time regressions, the predicted values of the dependent variable exclude fixed-time at stop.

(c) Confirmed. However, the appropriate measure of fixed-time at stop to be deducted from each of these regression-based predictions of carrier time would not be my estimate of fixed time, but the fixed-time estimate that is itself derived from the regression. This estimate equals the sum of the intercept coefficient plus the appropriate estimated coefficients for the receptacle and container dummy variables. Such a deduction is also valid only if the regression is first interpreted as a prediction of load time plus fixed-time at stop. As indicated in my response to part (a) of this question, I reject this interpretation.

## Response of Witness Baron to Interrogatories of United Parcel Service

UPS/USPS-T17-11. Please refer to your regression analysis of SDR load time at page 57 of LR-H-137, and confirm the following:

- (a) The sum of the parameter estimates for LD (0.6325055 seconds) and LDS (0.0069554 seconds) represents the estimated variable load time to deliver a single letter at a single letter stop;
- (b) Your estimate of 1.052 seconds of fixed time at stop includes the time to deliver a single letter.

Please explain any nonconfirmation, including why the difference (0.412539 seconds) does not represent the fixed time at stop prior to loading any mail.

## RESPONSE:

(a) Not confirmed. According to my interpretation of the SDR regression, this sum of parameter estimates, which equals about 0.639 seconds, is simply the estimated total load time to deliver one letter to an SDR stop. To agree that 0.639 equals just variable load time would imply that I view the estimate of the dependent variable as the sum of load time plus fixed-time at stop, and that this sum minus 0.639 equals just the fixed time. In effect, I would be agreeing that fixed-time at stop equals the sum of the estimated intercept coefficient and estimated coefficients for the relevant receptacle and container dummy variables.

In fact, I do not regard the sum of the intercept and dummy variable coefficient estimates as a valid measure of fixed-time at stop. See my responses to NAA/USPS-T17-3 and NAA/USPS-T17-14. In addition, I view the dependent variable as just the load-time portion. See my response to UPS/USPS-T17-10.

Moreover, if 0.639 second is viewed as a valid measure of just variable load time at an SDR stop, then, by necessary implication, the sum of the intercept plus relevant dummy variable coefficients would have to be viewed as a valid estimate of just the fixed time. This, in turn, would force the acceptance of clearly impossible results.

## Response of Witness Baron to Interrogatories of United Parcel Service

Suppose, for example, that an SDR stop has a mail box, and that the carrier's container type is "bundled mail." Then the dummy variables MR2 and CT2 in the SDR regression would equal one, and all other receptacle and container dummy variables would equal zero. Since MR2 but not CT2 appears as a right-hand-side variable in the SDR regression, the sum of the coefficient estimate for MR2, -2.861 seconds, and the intercept coefficient, 1.115 seconds, would equal the estimated fixed-time at stop. This sum, -1.746 seconds, is obviously an unacceptable result. However, if the predicted dependent variable value really is viewed as estimated fixed time plus load time, and if 0.639 seconds is viewed as a valid estimate of just the load time (i.e. variable time), then how could -1.746 not be viewed as the appropriate fixed-time estimate?

(b) Confirmed in the sense that 1.052 is the average of the lowest 20<sup>th</sup> percentile of 1985 carrier times recorded at one-letter stops. However, I view this 1.052 seconds as an upper-bound estimate of just the fixed-time at stop. I am using the lowest 20<sup>th</sup> percentile of 1985 carrier times to infer a value for fixed-time at stop, given the absence of any direct measurements of this fixed time.

UPS/USPS-T17-12. Please refer to your regression analysis of SDR load time at page 57 of LR-H-137, and confirm the following:

(a) The sum of the following parameter estimates represent the estimated variable load time in seconds to deliver a single piece of mail at a single piece stop:

<u>Category</u>	<u>Volume Coefficient</u>	<u>Volume-Squared Coefficient</u>	<u>Sum(=variable Load time)</u>
Letters	0.6325055	0.0069554	0.6394609
Flats	1.4789208	-	1.4789208
Parcels	12.2500025	-1.8524356	10.3975669
Accountables	47.9910158	-	47.9910158
Collections	1.1830019	-0.0150421	1.1679598

(b) If your estimates are deducted from the single-piece delivery load time observations for the respective categories, then the resulting estimate of the mean fixed time at stop prior to loading any mail for the lowest 20<sup>th</sup> percentile of the SDR tests is -0.037 seconds.

Please explain any nonconfirmation, including an explanation of why this estimate does not represent the fixed time per stop prior to loading any mail at SDR stops.

#### RESPONSE:

(a) Not confirmed. I view these sums of parameter estimates as estimates of total load time. I do not view them as estimates of just "variable" load time, which, for this question, is defined as total load time minus the sum of the estimated intercept coefficient and estimated coefficients for the relevant receptacle and container dummy variables. See my responses to UPS/USPS-T17-11, part (a) and UPS/USPS-T17-10.

(b) It is unclear how the -0.037 seconds is derived. However, to view it as a measure of mean fixed-time per stop, I must apparently first accept the premise that the sums of parameter estimates shown in the table presented in part (a) of the question are "variable" load times, in the sense that they equal total time at stop minus the sum of the estimated intercept and relevant dummy variable

Response of Witness Baron to Interrogatories of United Parcel Service

coefficients. As indicated in my responses to UPS/USPS-T17-11, part (a), and to part (a) of this question, I reject such a premise.

## Response of Witness Baron to Interrogatories of United Parcel Service

**UPS/USPS-T17-13. Please refer to your response to UPS/USPS-T17-8(a), and confirm the following:**

**(a) Your elasticities are computed based on FY1996 CCS data which are different from the 1985 test data that was the basis for the underlying regression estimates;**

**(b) Accordingly, your elasticities are not computed at the simple mean values of the right-hand side variables as presented by the Postal Rate Commission in Docket No. R87-1, Appendices to Opinion and Recommended Decision, Appendix J, pages 26-27.**

**RESPONSE:**

**(a) Confirmed.**

**(b) Confirmed. However, the Commission itself in its Docket No. R94-1 Decision accepted the computation of load-time elasticities at the mean values of FY 1993 CCS data (where this was possible), instead of at the mean values of the 1985 test data.**

**UPS/USPS-T17-14.** Please refer to your response to UPS/USPS-T17-8, and confirm the following:

- (a) The volume elasticities, as calculated using equation (1) at page 7 of your testimony, are higher when the mean volumes used to calculate the elasticities are increased by 1%;
- (b) The use of a higher elasticity estimate in your illustration at page 35, lines 8,9, and 13 of your testimony, would reduce, if not eliminate, any increase in accrued coverage-related load time cost;
- (c) That if an elasticity of .612373721, rather than an elasticity of .61, is used in computing volume-variable load-time cost after volumes are increased by 1 percent in your illustration on page 35 of your testimony, then there would be no resulting increase in coverage-related load time;
- (d) Please confirm that the results of your illustration on page 35 of your testimony form the only basis in your testimony to conclude that the traditional calculation of coverage-related load time is flawed. If not confirmed, please explain.

**RESPONSE:**

- a. Confirmed. At the mean volumes used in my testimony, the aggregate SDR elasticity with respect to the volume terms is 0.61017. (See table 5 in my testimony). At volumes that are 1 percent higher than these means, the aggregate elasticity increases to 0.61182. The EXCEL workbook in USPS LR-H-289, which is attached to this response, shows the computations that produce this 0.61182 estimate.
- b. Confirmed. The use of the higher elasticity would reduce but not eliminate the increase. It may also be useful to show the specific result. To do so, I will redo the hypothetical from page 35 of my testimony using elasticities that are calculated to the fifth significant digit. This will avoid distortions from using variabilities that have different levels of rounding. I will then modify this hypothetical to account for the change in the elasticity that results from a one percent increase in volumes.

## Response of Witness Baron to Interrogatories of United Parcel Service

UPS/USPS-T17-15. In reference to the hypothetical illustration at pages 34 to 36 of your testimony, please confirm that given the specification of equation (1), the residual will always increase as volume increases unless the elasticities are calculated at the higher values.

**RESPONSE:**

Not confirmed. As my response to UPS/USPS-T17-14 shows, the residual will increase even when the higher elasticities calculated at the higher volume are used to calculate volume variable and coverage-related costs.

## Response of Witness Baron to Interrogatories of United Parcel Service

Row 1 of the table shown below assumes that accrued cost currently equals \$800,000,000. The SDR load-time elasticity is assumed to equal the 0.61017 reported in table 5 of my testimony, which is the elasticity derived from the SDR regression at mean values for the volume variables. This elasticity produces a volume variable cost equal to \$488,136,000, and an accrued coverage-related load-time cost equal to \$311,864,000.

As confirmed in my response to part (a) of this question, the aggregate elasticity will increase from 0.61017 to 0.61182 as volumes increase by one percent above the mean values. The initial elasticity of .61017 implies an increase in accrued cost to \$804,881,360. (In particular, \$800,000,000 times 1.0061017 equals \$804,881,360). Furthermore, as shown in row 2 of the table, the product of this new accrued cost and the new 0.61182 elasticity equals a volume variable cost of \$492,442,514. The accrued cost minus this volume variable cost equals a new accrued coverage-related load-time cost of \$312,438,846. This is \$574,846 higher than the initial accrued coverage-related load-time cost. Although this increase is not as high as the one derived in my testimony, it nevertheless again illustrates the point that coverage-related load-time cost is not fixed with respect to volume loaded at one stop or at a given set of actual stops.

The Impact of Volume Growth On Accrued Coverage-Related Load-Time Cost

VOLUME	VOLUME VARIABILITY	ACCRUED COST	VOLUME VARIABLE COST	ACCRUED COVERAGE-RELATED LOAD-TIME COST	INCREASE IN ACCRUED COVERAGE-RELATED LOAD TIME COST
Current Levels	0.61017	\$800,000,000	\$488,136,000	\$311,864,000	N.A.
All Volumes are 1% Higher Than Current Levels	0.61182	\$804,881,360	\$492,442,514	\$312,438,846	\$ 574,846

Response of Witness Baron to Interrogatories of United Parcel Service

- c. Confirmed. However, it is unclear how this 0.612373721 is derived.
- d. Confirmed in the limited sense that this illustration is the only illustration presented in the testimony. Additional illustrations are provided by hypothetical examples and questions presented in NAA/USPS-T17-13, and in my answers to those questions.

1           CHAIRMAN GLEIMAN: Does any participant have  
2 additional written cross examination for the witness?

3           Only one participant, ADVO, sought  
4 cross-examination, oral cross-examination, of Witness Baron.  
5 Mr. McLaughlin, you either have all the questions in your  
6 head or you're going to send us home early today.

7           MR. McLAUGHLIN: I'm going to be sending you home  
8 early. We have no direct cross-examination.

9           CHAIRMAN GLEIMAN: Thank you.

10          Any other party?

11          MR. COOPER: Mr. Chairman, I will note that  
12 earlier in the proceeding the Postal Service indicated that  
13 this witness would sponsor Library Reference H-113, and I  
14 have copies of that library reference and I would be happy  
15 to move its admission into evidence at this time.

16          CHAIRMAN GLEIMAN: I think that would be an  
17 appropriate thing to do.

18          Again, I'm going to reserve the rights with  
19 respect to Library Reference 113, as I have with respect to  
20 the other library references, regarding the process we are  
21 using to move these documents into evidence.

22                           FURTHER DIRECT EXAMINATION

23           BY MR. COOPER:

24           Q    Mr. Baron, I am handing you two copies of Library  
25 Reference H-113, entitled "Calculation of Fiscal Year 1996

1 Mail Processing Productivities and Accept Rates" -- have you  
2 examined this library reference?

3 A Yes, I have.

4 Q Was it prepared by you or under your direct  
5 supervision?

6 A Yes.

7 Q Are you prepared to sponsor this library reference  
8 for purposes of your testimony today?

9 A Yes.

10 MR. COOPER: Mr. Chairman, I will hand these two  
11 copies to the Court Reporter and ask that they be admitted  
12 into evidence.

13 CHAIRMAN GLEIMAN: Again, reserving the right of  
14 the parties to object, we'll move the Library Reference  
15 Number 113 into evidence, and as has been our practice, we  
16 will not transcribe it into the record.

17 [Library Reference H-113 was marked  
18 for identification and received  
19 into evidence.]

20 CHAIRMAN GLEIMAN: There doesn't appear to be any  
21 cross examination.

22 One of my colleagues has a question or two, so we  
23 will move to questions from the bench.

24 COMMISSIONER LeBLANC: Mr. Baron, how are you  
25 doing this morning?

1 THE WITNESS: Okay.

2 COMMISSIONER LeBLANC: It's still morning, I  
3 think -- I hope anyway.

4 I just have basically one or two little questions  
5 that bother me just a little bit.

6 When was the load time variability study last  
7 updated?

8 THE WITNESS: The study was conducted in 1985 and  
9 as far as the actual collecting of data, that was the last  
10 collection of data so that it has not been updated.

11 COMMISSIONER LeBLANC: Is it true that the  
12 detached label mail has grown substantially since the time  
13 of the load time variability study, and also is it true that  
14 delivery point sequencing, which is now widespread, was not  
15 in use at the time of the study?

16 THE WITNESS: I don't know about the first.  
17 Certainly the second statement is correct.

18 COMMISSIONER LeBLANC: You'll accept that subject  
19 to check I think it probably has, but --

20 THE WITNESS: Well, volume in general has gone up  
21 so certainly DPS did not exist in 1985.

22 COMMISSIONER LeBLANC: Detached label mail has  
23 been typically kept in a separate bundle by the carrier on  
24 the street, has been separately loaded from that bundle.  
25 The same is true of delivery point sequencing mail.

1           Given the practice of keeping these kinds of mail  
2 in separate bundles for loading purposes, shouldn't these  
3 kinds of mail be treated as distinct shapes in the load time  
4 variability analysis?

5           THE WITNESS: I think that is something that  
6 deserves serious consideration in --

7           COMMISSIONER LeBLANC: But right now it is not and  
8 you basically have four bundles?

9           THE WITNESS: That's correct. There is no  
10 separate shape category.

11          COMMISSIONER LeBLANC: So it might be possible  
12 that the current load time variability under-attributes load  
13 time costs to such mail?

14          THE WITNESS: It's possible that if a new study  
15 were conducted to address this issue that the end result of  
16 that study would show what you are suggesting.

17          COMMISSIONER LeBLANC: Thank you very much.

18          Thank you, Mr. Chairman.

19          CHAIRMAN GLEIMAN: Did questions from the bench  
20 generate any follow-up?

21          [No response.]

22          CHAIRMAN GLEIMAN: If not, that brings us to  
23 redirect.

24          MR. COOPER: I have no redirect.

25          CHAIRMAN GLEIMAN: If there is no redirect, then

1 Mr. Baron, I want to thank you. We appreciate your  
2 appearance here today and your contributions to our record.

3 If there is nothing further that you wish to add,  
4 you are excused.

5 [Witness excused.]

6 CHAIRMAN GLEIMAN: That concludes our hearings for  
7 today.

8 We will reconvene on Monday, October the 20th,  
9 when we are scheduled to meet at 9:30, when we are scheduled  
10 to receive testimony of Postal Service's witnesses Bradley  
11 and Moden, and I hope everyone has a nice weekend.

12 [Whereupon, at 11:42 a.m., the hearing was  
13 recessed, to reconvene at 9:30 a.m., Monday, October 20,  
14 1997.]

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